



Kansas Rural Center  
SUSTAINABLE  
AGRICULTURE  
MANAGEMENT GUIDES

# Marketing Organic Grain

January 2000

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## Participants

Information presented in this market guide has been compiled from telephone conferencing meetings and one group meeting in Ames, Iowa. This last meeting provided an opportunity to further develop marketing strategies. In addition to the planning of this market guide, the group became the nucleus for starting a Marketing Agency In Common. A discussion at the end of this guide will introduce the reader to the purposes and mission of that group.

The majority of the participants selected for the tele-conferencing organic grain marketing group are CEOs and general managers of marketing organizations that represent organic grain producers. In the Midwest and Great Plains region, there are currently six groups that have formed a business structure or otherwise provide market services to producers. The tele-conferencing group also included others who brought valuable information to the discussion. The complete list of participants is at the end of this guide.

## Background

Certified organic grain has been produced and direct marketed by farmers long enough to have a system of marketing developed. This market guide will provide information on the structure of that system as it exists today, and consider some of the changes that pose challenges to the producers.

This guide is designed for the producer. The concepts presented here are based on the experiences that individual producers have faced over many years of effort marketing their products.

Although the organic food demand continues to experi-

ence rapid growth, certified organic crop production still represents a small percentage of the acreage devoted to food and feed crops in the United States. This growth in both production and usage may be the greatest in countries outside the U.S. borders. This expansion presents U. S. producers both a challenge and an opportunity.

Currently, organic producers receive a premium over the conventional price for their organic commodities. There is strong pressure from other sectors of the industry to reduce this price premium. As the market demand grows, it will take a greater marketing effort to maintain and strengthen the benefits to producers. To better understand just how challenging this will become, review the reference, "The Thing That Ate Agriculture", summarizing a presentation by Dr. William Heffernan. See reference #1.

## Marketing Concepts

If one is to become a price-asker rather than a price-taker, it is essential to explore marketing concepts. This report is not a recipe for marketing, but presents some basic concepts needed in today's marketing of organic products. If one uses these concepts as a means to measure your marketing program, the probability of success can be increased.

### A. Differentiate Your Commodity.

Just being different, such as organic, is not enough. The main differences must be high quality and service. This means the highest quality you and Mother Nature will permit in any given year. This is part of the concept of differentiating your commodity from your competition. This can be accomplished by quality, but also by the service you provide. The objective is for you to become indispensable to your customer.

**B. Pick Your Market.**

If you try to compete within a market that requires a great deal of capital, you may well fail. Large food companies are good at acquiring capital. They are not good, however, at producing a product that does not lend itself to easy duplication.

**C. Understand Risk of Standardization**

By standardizing organic products, it becomes easier to duplicate them. Again, large companies are good at making large amounts of the same product. If your product is difficult to duplicate, it may better maintain market share. On the other hand, if it sells successfully, the large food processors may figure out a way to mass-produce the product. It will not likely be the same quality, but it will sell for less and become a major competitor.

There are examples in the conventional market where

the mass-produced food item became the only recognizable item. One example is the American-made bagel. What we know as the bagel today has little resemblance to that of a true bagel when first introduced to the U.S. market. Few today know the difference.

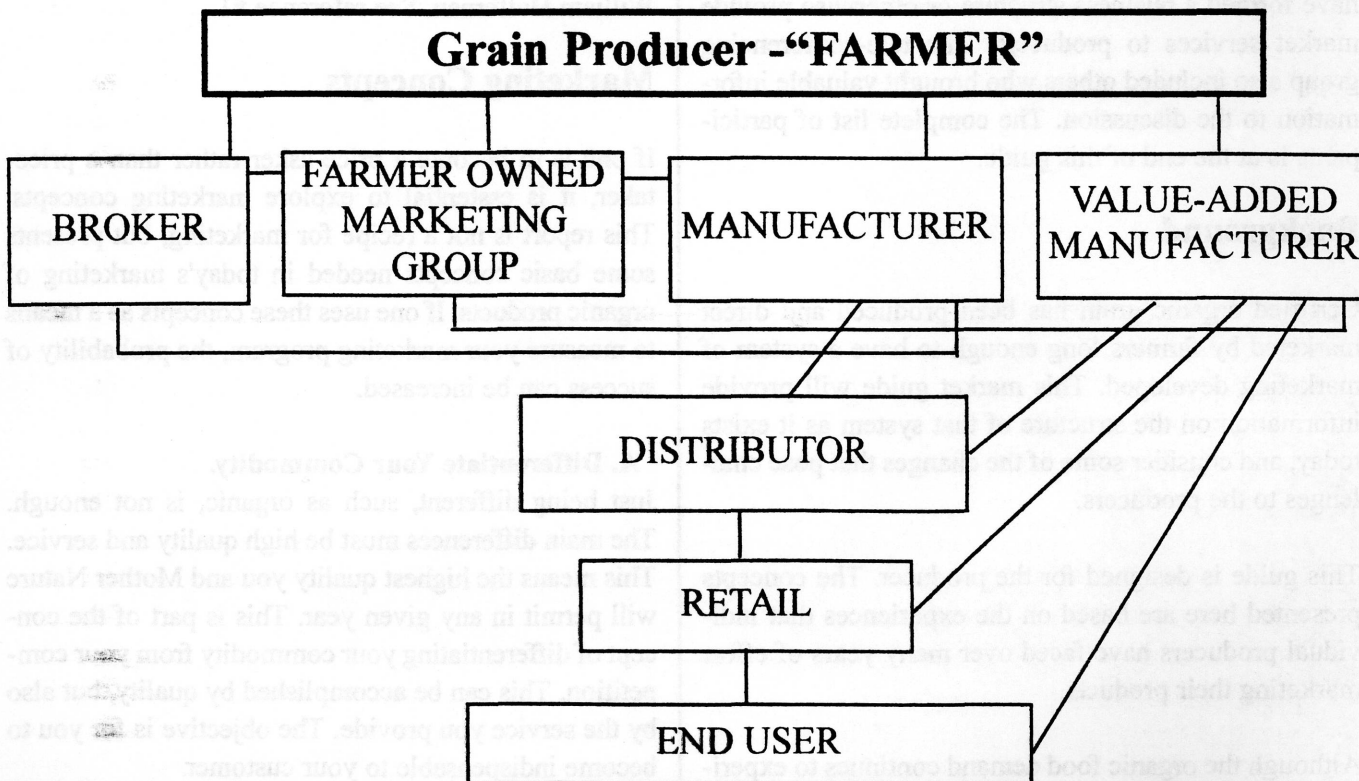
One avenue to protect yourself from this cycle of business is to continually differentiate your product and develop strong relationship marketing practices.

**D. Develop Relationship Marketing**

Developing a relationship with your customer is your opportunity because this is a very difficult process for the large company to accomplish. The large companies "Globalize and Industrialize" the food system. The alternative to this is to "Personalize and Localize," a concept suggested to the conferencing group by Dr. Bill Heffernan.

**Market Structure**

To understand the existing marketing structure, it is necessary to understand the choices a producer has in developing his/her own marketing plan. The diagram below illustrates how commodities move from producer to end-user.



**Producer**

There is a great variation in what organic farmers produce and the quantity they produce. The dominant commodities produced by the participants in this project were food- and feed-grade soybeans, hard red winter wheat and yellow corn. In addition, they produced specialty crops of dry edible beans, popcorn, corn of other colors, sunflowers, alfalfa hay, and smaller amounts of other organic grains.

The individual producer can influence market price. However, as individuals this is becoming more difficult. A group of producers marketing collectively can affect the price more than individuals. This is particularly true when putting together a contract requiring specific quality and quantity.

The conferencing participants felt the opportunity for individuals to market did exist early in the development of organic grain production. As the market has grown, there has become more of a demand for larger orders. Those sourcing these orders often try to purchase at low prices. If the individual producers do not have a good differentiating advantage, he/she may be left with a "taking" rather than an "asking" price.

Role of the four groups that have direct access to producers:

**Brokers**

This group also varies greatly in the volume of grain they handle. A considerable amount of writing would be necessary to completely describe this group. For this management guide, the description will be minimal.

Brokers provide a way to sell grain for the producers. In most cases they provide access to the manufacturer. They make their profit between the purchase price and the selling price. It would be fair to say their interest is mostly vested in their own business. In most cases they take ownership during the transaction. If the producer is paid immediately upon the commodity leaving the farm, the broker

has put his money into the commodity. If the producer is paid after some specified time, it is most likely that the broker is paying the producer after the product has been sold to their buyer. In some cases, this arrangement exposes the producer to an element of risk should the sale be rejected. This kind of situation does exist and producers should be aware of the risk.

**Farmer Owned Marketing Groups**

This group operates as a cooperative under the Capper-Volstead Act of 1922, as Limited Liability Corporations (LLC) or corporations. Each of these business entities provides certain opportunities for their participants. This management guide is not intended to develop an understanding of each one. It is important to understand that a marketing group, that agrees on price and other terms of trade, must have a legal business entity that will provide exemptions from antitrust laws. This consideration is of prime importance as the criteria for formation of a marketing group. For court case clarification of this, see reference #2.

A study by the Ozark Small Farm Viability Project, completed and reported in 1995-1996, provides further information on developing farmer cooperative business enterprises. See reference #3.

Pooling of specific quantity and quality is an important benefit for individual producers. Marketing under contract is also an opportunity that is not always available as an individual producer. Pooling of commodities gives individual producers access to higher prices and, more importantly, the access to a market not available to an individual.

A good example is the marketing of Hard Red Winter wheat. The quality variation is generally quite large. High quality wheat can be blended with lesser quality to meet the demand for a larger quantity to be marketed by a group of producers. By producing large enough quantities at a marketable quality, an individual producer can be successful in the market place. The year an individual's quality



becomes unmarketable by itself, is the year group marketing will make the difference. To be sustainable, sales need to occur each growing season.

### **Value-Added Manufacturers**

Some would support the idea that farming by the organic system is a value-added endeavor. Others would argue the value received for certified organic is only getting close to an equitable price for producing high quality food.

If "value-added" is to give the producer additional price, farmers need to have a vested interest in the business. This is an important distinction from only selling directly to a manufacturer. Organic Valley/CROPP Cooperative of Wisconsin is an example of a producer-owned processing and marketing group for the kinds of commodities they produce, manufacture and market.

The value-added concept has the opportunity to produce the largest margin to a producer. At the same time, it can expose the producer to a great amount of financial risk. Many articles and books have been written on this topic.

One of the greatest risks involves capital formation. Developing value-added products means some type of manufacturing. It also means the purchase of the raw commodities. Unless the producer can afford to be paid after the raw commodity is sold, there will need to be capital to purchase at time of delivery. Manufacturing can require ownership of a processing plant. The current manufacturing capacity is considerably greater than the need. Finding an acceptable manufacturer would be highly advisable in the start up phase. Capital will also be necessary to provide management. Producers generally do not make good managers because of the time needed to begin a business. Farming is a full time job.

Those who have begun a value-added venture can provide first hand experiences regarding the many challenges. If developed with sound business methods and realistic expectations along with competent assistance, the value-added manufacturing of raw materials can be of value to producers.

### **Manufacturers**

This group should be the main target for the producer. They are your first-line to receiving a higher price. Relationship marketing can be very effective in maintaining and expanding this market. In addition, producing the specific commodity needed by the manufacturer can lead to producer contracts. Growing what is already sold should be one of the producer's major goals. A source of Manufacturers/Processors can be obtained in the National Organic Directory. See reference #4.

### **Marketing Agency In Common (MAC)**

Due to market changes, it is becoming more evident that a need exists to organize a network of organic grain producers. The tele-conferencing group expressed an interest in discussing such a network as one of their issues.

Following the tele-conferencing group meeting in Iowa, a core group of the participants convened the next day. This group has continued the work of organizing the Marketing Agency In Common (MAC). A short explanation of the MAC will be helpful in recognizing the potential for organic grain producers.

The MAC is a recognized legal business entity that farmer groups may participate in to improve their marketing efforts. It needs to be clearly stated early in this discussion about the MAC, that its purpose is not to do the marketing for grain producers. That responsibility is left to the current marketing groups and individuals.

To date, the core group has produced a Membership and Marketing Agreement. The by-laws are written and will be reviewed in early 2000.

### **Mission Statement for the MAC:**

To coordinate efforts of producer marketing groups to benefit and sustain organic producers.



**Purposes of the MAC:**

1. To exchange pricing and market information.
2. To formulate methods of inventory management.
3. The development and support of communications among organic producers.
4. Market development.
5. Other objectives within the goals and missions of the MAC as determined by the board of directors.

This marketing guide has included the formation of the MAC as another resource for producers to use in planning their marketing programs. To keep informed of the MAC progress, contact one of the participating marketing groups.

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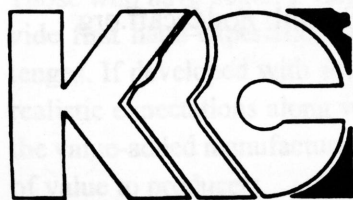
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