

Values-based food supply chains: Organic Valley

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This series of case studies examines values-based food supply chains—strategic business alliances formed between primarily mid-sized farms/ranches and their supply chain partners—to distribute significant volumes of high-quality, differentiated food products and share the rewards equitably. Farmers and ranchers function as strategic partners rather than easily replaced input suppliers. All participants in these business alliances recognize that creating maximum value for the product depends on significant interdependence, collaboration and mutual support. These supply chains attach importance to both the values embedded in the production of the food products AND the values that characterize the business relationships.²

Historical development through 2008

Introduction. Over the past 25 years, Organic Valley has grown to be the largest organic farmer-owned cooperative in North America, with over 1,300 members residing in over thirty states and the Canadian province of Ontario — or about 10 percent of the organic farming community in the United States. The cooperative successfully weathered the recession of 2009 and has made tremendous gains since then. This case study follows Organic Valley from the founding of the enterprise through 2011. **Operations through 2007-08 are described on pages 1-17, followed by a case update describing operations in 2009-2011.**

Organic Valley <www.organicvalley.coop>³ is the brand name used by a group of Wisconsin family farmers who, in 1988, organized an organic vegetable marketing cooperative under the name Coulee Region Organic Produce Pool (CROPP). A short time later, seven dairy farmers joined the co-op, and in 2001 the cooperative changed its name to Cooperative Regions of Organic Producer Pools. Introductions to Organic Valley can be found in the article “Natural Allies” in the 10/19/07 issue of the Madison Wisconsin weekly newspaper, Isthmus <www.thedailypage.com/isthmus/article.php?article=11261>, as well as the “Our Story” section of the Organic Valley website <www.organicvalley.coop/our-story/overview/>.


Within a year of CROPP’s initiation, dairy products became the cooperative’s leading sales category. Currently, more than 85 percent

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¹This is an updated version of this case study. The original version was published June 2009.

²Values-Based Food Supply Chains: Strategies for Agri-Food Enterprises-of-the-Middle explains the terminology and general characteristics of values-based food supply chains: <www.agofthemiddle.org>.

³All websites referenced in this document were accessed on 8/10/12.



***“Organic Valley is
a social experiment
disguised
as a business.”
—George Siemon***



of Organic Valley’s sales are dairy related. Dairy farmers make up approximately three-quarters of the co-op’s members, with most residing in the Upper Midwest. In addition to dairy products, CROPP also sells organic eggs and produce under the Organic Valley label, as well as organic fruit juice and soy products. In 2007, sales of Organic Valley products topped \$432 million and the cooperative employed over 400 people, most working in a newly constructed headquarters and distribution center in rural, south-western Wisconsin. The cooperative also sells organic beef, pork and poultry through a wholly owned subsidiary, the Organic Prairie Family of Farms. This case study does not include an analysis of Organic Prairie. For an introduction to Organic Prairie, see www.organicprairie.com.

Philosophical and strategic goals. According to CEO George Siemon, “Organic Valley is a social experiment disguised as a business.” (George Siemon, CROPP CEO, interview, 3/20/07). More information about Organic Valley’s philosophy and goals can be found in a 2002 interview with George Siemon on the Organic Valley website <www.organicvalley.coop/newsroom/about-organic-valley/ceo-interview/page-1/>.

Organic Valley mission statement. “The purpose of the Cooperative Regions of Organic Producer Pools is to create and operate a marketing cooperative that promotes regional farm diversity and economic stability by the means of organic agricultural methods and the sale of organic products” <www.organicvalley.coop/our-story/our-cooperative/our-mission/>.

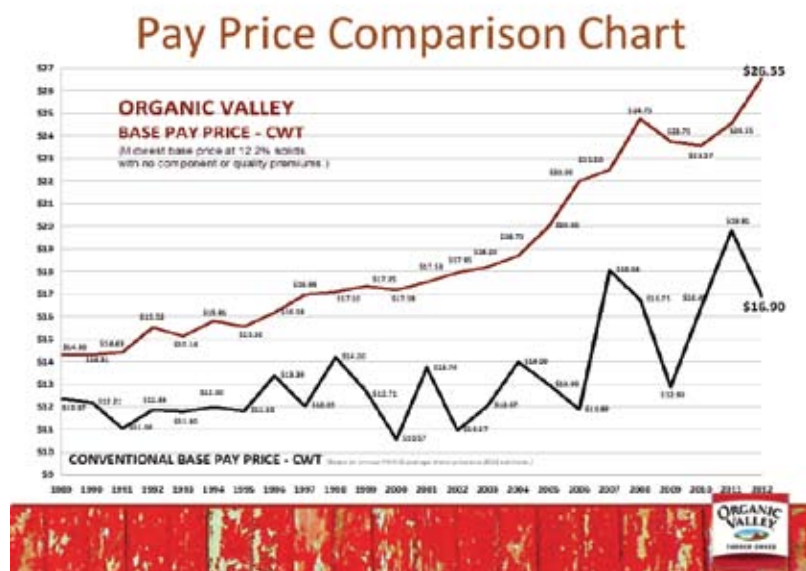
A broad definition of organic. CROPP defines organic as, “A philosophy and system of production that mirrors the natural laws of living organisms with an emphasis on the interdependence of all life” <www.organicvalley.coop/our-story/our-cooperative/our-mission/>. “Organic, as CROPP has framed it, takes the big view, focusing not just on farming techniques and fair pricing but on the larger values of sustainability and regional food systems” (*Isthmus*: <www.thedailypage.com/isthmus/article.php?article=11261>).⁴

Evolving organic food paradigm. Organic Valley has created a pyramid model that illustrates what it calls the “evolving organic food lifestyle.” The USDA organic standards banning the use of synthetic pesticides and fertilizers represent a bottom platform supporting additional agri-food related values such as humane animal treatment, local food and growing your own <www.organicvalley.coop/why-organic/organic-defined/evolving-organic-lifestyle/>.

⁴A broad definition of “organic” provides CROPP with a framework for adding additional values and differentiations to Organic Valley products as the organic industry becomes increasingly more like the conventional market.

Multiple background goals. Within these broad frameworks, Organic Valley engages multiple goals that address fair, farmer-determined food prices; good tasting, nutritious food; ecological and economic sustainability; healthy livelihoods and communities; cooperative principles; and respect for biological and human diversity. The co-op's website describes in detail how its goals go beyond USDA organic certification <www.organicvalley.coop/why-organic/organic-defined/evolving-organic-lifestyle/>. The *Isthmus* article describes how Organic Valley incorporates economic, social and cultural agendas in its view of organic <www.thedailypage.com/isthmus/article.php?article=11261>.

Stable pricing through supply control. Through matching supply with demand for its products, CROPP successfully maintains for its members a stable pay price throughout the year that reflects their expenses and profit needs. This contrasts with conventional milk pricing systems, which can fluctuate widely over a given time period (see the graph provided by Organic Valley on the right). For more information, see part three of the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261> and "Achieving economic sustainability," page 13. The case update, page 18, illustrates how supply management helped Organic Valley weather the economic downturn of 2009.



Commitment to future farmers.

"We know what our job is: It's to get CROPP to the point where our farmers have a choice—they can farm, they can retire, they can sell to the kids. That's the exit strategy for our current farmers—it's a future for their kids." (Mike Bedessem, CROPP Chief Financial Officer, quoted in the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261>).

Organic Valley is committed to creating opportunities for the next generation of family farmers, as evidenced by their contribution of \$50,000 to the University of Wisconsin-Madison School for Beginning Dairy and Livestock Farmers <www.organicvalley.coop/newsroom/press-releases/details/article/organic-valley-contributes-50000-to-university-of-wisconsin-school-for-beginning-dairy-and-livestock-1/>.



Dairy farm families across the county are part of CROPP's regional pools. This farm is located in the Pacific Northwest.

Organizational development

A “New Generation” cooperative. CROPP is a new generation co-op in the sense that it brings on new farmer members only as markets for their milk are secured⁵ (See “Achieving economic sustainability,” page 13).

Leadership. CROPP leadership includes a seven-person, farmer-elected board of directors and an executive management team that guides the marketing and operations functions of the cooperative. For more information about the executive management team, see the CROPP website <www.farmers.coop/about-us/our-leaders/>.

Growth with regionalization. While the Upper Midwest remains the center of the CROPP/ Organic Valley enterprise, the cooperative has established milk pools that provide both regional identity and fluid milk for processing and delivery in eight regions of the United States, from New England through Texas to the Pacific Northwest <www.organicvalley.coop/who-is-your-farmer/index/>. While the Midwest remains the primary source for “hard products,” or cheese and butter, demand has grown to the point where CROPP has begun to manufacture cheese in Vermont and butter in the Pacific Northwest (Jerry McGeorge, Director of Cooperative Affairs, interview, 9/30/08).

Growth with specialization. CROPP has spun off two wholly owned, legally separate entities: Organic Prairie Family of Farms <www.organicprairie.coop>, which produces, processes and sells organic meat products, and Organic Logistics LLC, which focuses on distribution logistics for Organic Valley, Organic Prairie and smaller organic food companies <www.organiclogisticsllc.com>. These new companies were spun off both to provide them the full attention of their own governing boards and management, and to insulate the Organic Valley brand from any liability risks associated with the new enterprises (Jerry McGeorge, interview, 9/30/08).

Financial affairs. CROPP is in strong financial shape as indicated by several factors:

Strong sales. Sales of Organic Valley products grew at annual rates between 20 to 38 percent during the past several years, with sales of \$287 million in 2006, \$376 million in 2007, and \$462 million in 2008 (Jerry McGeorge, interview, 9/30/08).

Stable, premium prices to farmers. With few, and minor, exceptions, CROPP has been able to maintain stable pay above commodity prices to its dairy farmers in recent years. The base pay price from 2006 through 2008 was \$22.00, \$22.50, and

⁵For a critical analysis of aspects of new generation cooperatives, see www.rurdev.usda.gov/rbs/pub/jan01/critical.htm.


\$24.75 per hundredweight (about eleven gallons) of milk, respectively (Jerry McGeorge, interview, 10/14/08).

Timely construction of new buildings. To accommodate its growing operations, CROPP has built two new buildings in recent years, including its headquarters in La Farge, Wisconsin (population 786). This is the same rural Wisconsin town where the cooperative began 20 years ago. The second building is a state-of-the-art distribution center in a “green” industrial park close to Interstate 90, located in the nearby Wisconsin town of Cashton, population 805 <www.organiclogisticsllc.com/facilities.html>. Consistent with CROPP’s broad definition of “organic,” both buildings were constructed according to the guidelines of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System <www.usgbc.org>.


Annual profit distribution and debt. For the past several years, the CROPP Cooperative has generated profits of one to two percent of gross sales (Theresa Marquez, Chief Marketing Executive, interview, 3/20/07). CROPP’s profits are distributed to CROPP farmers, employees and the community through an established formula. Funds for constructing and equipping the two new buildings were generated by a mortgage provided by the State of Wisconsin Investment Board and by a \$21 million public offering of non-voting stock. This left CROPP with relatively little debt—less than \$10 million—to private banks (Mike Bedessem, interview, 3/20/07). For more information, see “Going mainstream” in the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261> and “Strategic partnerships replace capital and expertise,” page 11.

Historical performance indicators. Organic Valley’s strong financial performance is largely due to the success of its dairy pools, as well as the combination of competent leadership and CROPP’s historical timing. Developed in the late 1980s and early 1990s, the Organic Valley brand was well positioned to ride the 22 percent plus growth rates that organic food sales generated beginning in the late 1990s and continuing to the present (Jim Wedeberg, Dairy Pool Director, interview, 3/20/07). The growth of organic dairy products and milk has been particularly robust.

“The growth of milk has been even faster than other organic products, in part, because of the concerns of parents ... They’re thinking, ‘What are we putting in our children’s bodies?’ A lot of parents are concerned about growth hormones, pesticide residues, antibiotics. Those are the reasons they buy organic dairy.” (Phil Howard, rural sociologist, quoted in the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261>).



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Dynamics as of 2008

Creating and marketing differentiated, high value food products.

Product differentiation and branding. The Organic Valley brand is “...one of the strongest brands in the entire natural foods business” (*Isthmus*, <www.thedailypage.com/isthmus/article.php?article=11261>) and the “...number one brand in the country’s natural food stores.” (Mike Bedessem, interview, 3/20/07). Including Organic Prairie’s meats, consumers can find the Organic Valley brand on over 200 products <www.organicvalley.coop/products/>. Organic Valley products are differentiated on multiple dimensions including product qualities, stories and values, and logistical services.

- 1) Leading *product qualities* is the organic differentiation, both the narrow USDA definition and CROPP’s broader definition <www.organicvalley.coop/why-organic/overview/>. While CROPP frames “... organic as a choice, not a moral issue” (Jim Wedeberg, interview, 3/20/07), it is clear that CROPP positions Organic Valley products as strongly associated with superior taste, nutritional value and food safety, as well as with human, animal and environmental health.

Organic Valley uses powerful and sophisticated *outreach to parents and children* including Ovie’s Underground <www.organicvalley.coop/community/ovies>, *The Organic Manifesto of a Biologist Mother* <www.organicvalley.coop/community/moo/mothers-for-organic/page-1/>, and *We the Mothers* <www.organicvalley.coop/farm-friends/moo/we-the-mothers/>.

In addition to the core organic messages associated with Organic Valley products, CROPP also seeks differentiation through product value additions including pasture butter, sliced cheese and aseptic packaging: “Greener Grass=Better Butter: Organic Valley Introduces Pasture Butter” 1/9/08 <www.organicvalley.coop/newsroom/press-releases/details/article/greener-grassbetter-butter-organic-valley-introduces-pasture-butter>; “Who Sliced My Cheese? Organic Valley Now Offering Pre-Sliced Mild Cheddar, Baby Swiss, and Provolone” 9/27/07 <www.organicvalley.coop/newsroom/press-releases/details/article/who-sliced-my-cheeses-organic-valley-now-offering-pre-sliced-mild-cheddar-baby-swiss-and-provolone/>.

In addition to USDA organic certification, many Organic Valley products carry Orthodox Union Kosher Certifica-

tion <www.organicvalley.coop/fileadmin/pdf/kosher.pdf>. See “Standards and certification,” page 8, for more information.

- 2) *Stories and values* associated with the CROPP Cooperative and the Organic Valley brand engage not only human, animal and environmental health, but also the health of rural communities and the diversity of the nation’s farm structure. CROPP’s differentiation strategies communicate these values by emphasizing the regional and family farm nature of the cooperative’s membership.

Similar to the Country Natural Beef cooperative,⁶ Organic Valley employs CROPP farmers as “farmer ambassadors” for marketing in retail stores and food service institutions, as well as public appearances and speaking engagements (Theresa Marquez, interview, 3/20/07 and Jerry McGeorge, interview, 9/30/08).

Interestingly, with all its emphasis on family farming, CROPP has not been able to craft a definition for “family farm” that works across all regions of the country.

“Early on we struggled with a definition for a family farm but have backed off ... There’s too much difference in regional cultures. For instance, Midwest family farmers milk their own cows ... while family farmers in the West and South hire milkers. We are now more interested in whether farmers want to cooperate, and we do on-farm checks of farms that milk more than 500 cows.” (Jim Wedeberg, interview, 3/20/07).

- 3) Finally, CROPP seeks differentiation through important *logistical services* that include food quality monitoring, traceability and recall capacity, and prompt delivery. Organic Valley milk is regularly tested for pathogens at the farm level. Final products are routinely evaluated by inspectors at processing plants, and CROPP has the laboratory capacity at its La Farge headquarters to spot-check products such as cheese, butter and dried milk powder. Furthermore, the cooperative and its trucking partners have the capacity to trace (and recall, if necessary) every case of product that carries the Organic Valley label (Jeff Kragt, Director of Dairy Production, interview, 3/20/08).

CROPP achieves logistical efficiencies through regionalization. Organic Valley’s fluid milk can be delivered to a customer’s distribution center the day after orders are received. Other products take longer, but most can be delivered within two to three weeks (Jeff Kragt, interview,



Organic Valley’s pasture butter offers a new product differentiation avenue.

⁶See the Country Natural Beef case study for more information.



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3/20/07). Over the past two to three years, Organic Valley has transitioned into being the U.S. price leader for most organic dairy products. With this position comes the requirement that “CROPP couples the highest quality products with on-time delivery. ...To earn the premium, you need to deliver the goods.” (Jerry McGeorge, interview, 9/30/08).

Standards and certification. All producers, products and manufacturing plants associated with Organic Valley are inspected annually and certified according to USDA organic standards. Certification is done by Oregon Tilth Certified Organic, a USDA-accredited, independent, third-party organic certification agency based in Salem, Oregon.⁷ CROPP CEO George Siemon was instrumental in creating the USDA standards. For a critique of the USDA’s organic framework and George’s response, see “Sleeping with the enemy?” section of the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261>. Some Organic Valley products are also kosher <www.organicvalley.coop/fileadmin/pdf/kosher.pdf>.

Identity preservation throughout the supply chain. In CROPP’s early days, as much as 60 percent of its milk was sold anonymously into the conventional market (Jim Wedeberg, interview, 3/10/08). All of CROPP’s dairy products are currently marketed as organic, with roughly 60 percent sold under the Organic Valley label <www.organicvalley.coop/products/> in 2007. The 40 percent of products not sold under the Organic Valley label include milk and non-fat dry milk powder sold to the New Hampshire-based dairy company, Stonyfield Farm,⁸ for yogurt sold under that company’s label (25 percent), as well as milk sold to several supermarket chains for their house brand organic milk (15 percent) (Mary Ewing, Production Department, interview, 3/20/07).⁹ For more information, see “Going mainstream” in the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261>.

Interaction and feedback from customers. The Organic Valley website is set up for interaction with retail <www.organicvalley.coop/farm-friends/overview/> and wholesale <www.organicvalley.coop/wholesale/>.

⁷CROPP’s organic certificates can be viewed on its website: <www.organicvalley.coop/trade/certificates/> .

⁸For an introduction to Stonyfield, see the “About Us” page on the company’s website <www.stonyfield.com>. Stonyfield offers an example (parallel to Whole Foods) of increasing corporate concentration in the natural foods sector with the acquisition in 2002 of a controlling interest in Stonyfield by the large French-based consumer products company, Groupe Danone <www.danone.com>. In turn, the West Coast yogurt company, Brown Cow Farm <www.browncowfarm.com>, was added to the corporate mix in 2003.

⁹Since 2008, Organic Valley has entered the private label market and continues to provide bulk milk to organic food manufacturers such as Stonyfield. The cooperative’s goal is to have 50 percent or more of its total sales from Organic Valley branded dairy products. See the case update, page 18, for details.

icvalley.coop/trade/overview/> customers. CROPP production and logistical functions are sensitive to quality control issues, traceability and product recall.

Creating effective internal organizational forms.

National cooperative; Regional organization. See “Organizational development,” page 4.

Competent leadership and management structures. CROPP is led by a seven-person, farmer-elected board of directors and an executive management team.¹⁰ The board of directors meets monthly. CROPP farmers also participate in the cooperative’s governance through a dairy executive committee that is composed of one farmer representative per milk pool, which adds up to about 40 representatives. This committee provides feedback to the board and management through semi-annual pool meetings and other channels (Jerry McGeorge, interview, 9/30/08).



Farmers must meet several criteria to become CROPP members.

Selecting markets and supply chain partners.

Farmer partners. In addition to cooperative attitudes, requirements for dairy farmer membership in CROPP include such criteria as organic certification, sufficient scale (bulk tank with capacity for five milkings), high milk quality (low somatic cell count), an equity investment of 5.5 percent of annual income, and farm location in reasonable proximity to current milk pool trucking routes.

The “Who’s Your Farmer” section of the Organic Valley website <www.organicvalley.coop/who-is-your-farmer/index/> provides a sense of the geographical distribution of the co-op’s farmers. Examples of CROPP farms in the Midwest can be found in the *Isthmus* article <www.thedailypage.com/isthmus/article.php?article=11261>. The cooperative provides an impressive range of services to its members including a toll-free farmer hotline, consultation from a staff milk quality team and veterinarian, as well as information regarding where farmers can purchase feed, pest control supplies and veterinary supplies that meet organic standards.

Given the growing market for organic dairy products, CROPP actively seeks new, qualified farmer members <www.farmers.coop/join-cropp/>. To bolster recruiting, the cooperative provides consulting and financial assistance to help farmers make the transition to organic dairying <www.organicvalley.coop/newsroom/press-releases/details/article/organic-valley-announces-transition-to-organic-fund/>.

¹⁰See the biographies of the CROPP management team and their mixture of agriculture and food system-based backgrounds, often organic-related <www.organicvalley.coop/our-story/our-cooperative/our-leaders/>.



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Retail and food service partners. Sales of organic dairy products are experiencing the fastest growth in mass-market stores, while sales in natural food stores are relatively flat.

“We can’t be afraid of new people coming into our industry ... Yes, we’re growing in the mass market, but our love and devotion is still in the natural market ... That’s the group we cater to. They are the core organic shopper. They are the pioneers.”
(Therese Marquez, interview, 3/20/07).

Organic Valley’s partnerships with retail customers are characterized by: a) a clear sense of mutual benefit; b) comfort with financial transparency (cost structures can be shared and honored); and c) openness to a long-term relationship. CROPP currently does little business with the food service sector, and sees this as a potentially important area for growth (Jerry McGeorge, interview, 10/3/08).

Processing and distribution partners. CROPP owns only one processing facility—a butter-manufacturing creamery in the rural community of Chaseburg, Wisconsin. Other Organic Valley dairy products, as well as soy and juice products, are processed on contract by outside companies strategically located throughout the country. The processing of fluid milk is the most dispersed, with plants contracted in California, Washington, Colorado, Texas, Minnesota, Wisconsin, Indiana, New Jersey and New York (Doug Bean, Manager of Product Transportation, interview, 3/20/07).

Processing partners are selected initially on the basis of geographical location. Matching processors with CROPP farmers is sometimes a chicken-or-egg calculation. In order to be profitable, 30,000 to 40,000 pounds of milk needs to be collected daily on each collection route. The capacity to deliver high-quality products is a second criterion, particularly important for cheese manufacturers (Mary Ewing, interview, 3/20/07).

“We like to partner with family-owned, independent processors where we can ... A good example is the family-based Schroeder Dairy in Minnesota. This is easier to do with cheese plants than with milk plants ... We contract with a Dean’s milk plant in New York which has the capacity for ultra-high temperature pasteurization.” (Mary Ewing, interview, 3/20/07).

Processing agreements are evolving from handshake understandings to more formal contracts. This is particularly the case with regard to assuring the capacity to convert the spring flush of milk to nonfat dry milk powder. CROPP has entered into written contracts for such dry milk conversion with the large Midwestern dairy cooperative, Foremost Farms <www.foremostfarms.com> (Mary Ewing, interview, 3/20/07).

CROPP's approach to distribution parallels its approach to processing. Products are distributed primarily by trucks. CROPP owns no delivery trucks. The cooperative has contracts with transportation companies for the distribution of Organic Valley products across the country. Trucking companies are selected based on their rates, capacity, service, scale and fit with CROPP's support for smaller, family-owned businesses.

"We seek out trucking firms that specialize in particular geographical 'lanes,' such as from Wisconsin or Minnesota to Florida. It's a win/win deal. We offer them a consistent weekly load which enables them to find return loads. In exchange, they can provide us with better rates and service. ...We do background checks on all our carriers. The best carrier is not always the cheapest. We prefer firms with 50 or less trucks. Family-owned companies are a good fit with family farms." (Doug Bean, interview, 3/20/07).

While CROPP trucking agreements are handshake understandings, the cooperative requires proof of insurance coverage and rate structures (Doug Bean, interview, 3/7/07). Organic Valley is considering changes to its current approach to distribution. "We would consider owning our own trucks if contracting became too expensive ...We are looking closely at transporting more product by railroad as fuel prices force higher trucking rates." (Doug Bean, interview, 3/20/07).

CROPP's manager of product transportation, Doug Bean, has worked in the grocery business and owns a small trucking firm. This is a good example of bringing professionals with key managerial competencies and similar values into enterprises owned by farmers and ranchers.

Strategic partnerships replace capital and expertise. One of the reasons that CROPP succeeded when other organic dairy firm start-ups in the 1980s failed is because, "... through most of our life we did not sink money into bricks and mortar." (Jim Wedeberg, interview, 3/20/07). By contracting out key processing and distribution activities, CROPP employed strategic partnerships to reduce capital expenditures and broaden its expertise.

However, within the past several years, CROPP has built a new company headquarters and distribution center, and it may build additional distribution centers on the east and west coasts. These decisions to build were made because CROPP was seriously outgrowing its administrative and warehousing space, and was committed to remaining in rural communities. "Given our druthers, we'd prefer to not invest in bricks and mortar, but we need to look at the available options." (Jerry McGeorge, interview, 10/3/08). "Build the business and then build the buildings." (George Siemon, interview, 3/20/07).



Organic Valley offers a wide variety of products.

Developing the distribution sector as a service and income center.

The Organic Valley distribution center at Cashton, Wisconsin, was completed in conjunction with the development of Organic Logistics, LLC, as a new service and profit center for CROPP <www.organiclogisticsllc.com>.

Designed to provide a range of high quality, affordable distribution services for smaller organic food companies, this new enterprise is a win/win for CROPP, which needs full trucks to garner the best “weight breaks” through its contracted freight agreements, and the smaller companies it serves through Organic Logistics (Doug Bean, interview, 3/20/07). The new, green, state-of-the-industry distribution center is also an important platform on which to build future logistical capacities for the cooperative and its partners.

Developing effective supply chain logistics.

Production and aggregation. In 2007, slightly over 50 percent of the milk from CROPP’s 900 plus dairy farmers was processed and sold as fluid milk (Mary Ewing, interview, 3/20/07), with the rest used for cheese, butter, cottage cheese and other Organic Valley dairy products <www.organicvalley.coop/products/>.

CROPP staff members develop milk collection routes within geographical regions that result in efficient, profitable collections and deliveries to the contracted dairy processing plants. These aggregation logistics, as well as farmer relations, are supervised by CROPP-employed pool coordinators who often live in the regions they serve.

Processing and distribution. Processing is done on contract by dairy manufacturing plants located close to the regionally organized milk pools. Hauling large loads of milk achieves scale and processing efficiencies, as “... scale helps CROPP recruit efficient, high-quality manufacturing plants, and reduces ‘line loss,’ the eight to 10 percent of milk that remains in the processing plant’s lines upon shut down.” (Mary Ewing, interview, 3/20/07).

Within each region, contracted trucking firms pick up Organic Valley-branded fluid milk at the processor’s loading dock and deliver it to customers’ distribution warehouses. Other Organic Valley products, including cheese, cottage cheese, eggs and juice, are currently routed through CROPP’s distribution center in Cashton (Doug Bean, interview, 3/20/07). If plans to establish major CROPP distribution centers on the east and west coasts materialize and Organic Logistics LLC continues to grow, future distribution of Organic Valley products will be increasingly accomplished regionally.

Accounting. All invoicing, payment and accounting functions are performed by CROPP employees under the direction of CROPP's chief financial officer.

Logistical coordination. Logistical coordination is done through the new distribution center under the direction of CROPP's chief operating officer.

Achieving economic sustainability.

Pricing philosophy. Stable prices for farmers are fundamental to CROPP's mission and business model. Price stability is accomplished through controlling the supply of Organic Valley products. Operationally, this means: 1) managers from CROPP's marketing, sales and production departments participate in weekly coordination meetings (Theresa Marquez, interview, 3/20/07); 2) new CROPP farmers are brought on only after markets have been secured for their milk; 3) a reserve pool of organic dairy farmers supplies milk during periods of the year when demand outstrips supply; 4) fluid milk is converted into dry milk powder and stored during periods of the year when supply exceeds demand; and 5) the cooperative retains the right to drop purchases from its newest farmer members. Reaching the point where 100 percent of CROPP's milk is sold as organic has been crucial to making the numbers work (Jim Wedeberg, interview, 3/20/07).

CROPP translates its values into business decisions about pricing. In 2000, CROPP was facing an oversupply of milk and needed to decide whether to drop the farmers most recently signed on to the milk pools or to reduce all farmers' pay price by 30 cents per 100 pounds. "The farmers voted to drop the collective pay price." (Jim Wedeberg, Mike Bedessem and Theresa Marquez, interviews, 3/20/07). See the case update, page 18, for a parallel decision by CROPP's board of directors to drop the pay price and reduce farmers' milk quotas to manage supply and price in the 2009 recession.


In 2004, CROPP had been selling Organic Valley products to Wal-Mart for several years. In keeping with its business model, Wal-Mart began pitting its organic milk providers against one another, demanding lower prices and more milk from each of them. Meeting Wal-Mart's demands would not only have shortchanged CROPP's smaller customers, but also altered the cooperative's vision for values-based business relationships and long-term economic sustainability. So, CROPP made a decision nearly unheard of in the conventional food industry and said 'no' to Wal-Mart.

"We asked ourselves 'Which retailers have been with us in the past and will stick with us down the road?' We're independent. We answer to ourselves, not Wall Street, so we can do it. We can




***Stable prices for
farmers are
fundamental to
CROPP's mission
and business model.***





CROPP
spokespersons
emphasize the
importance of
stable, cost-of-
production-based
pricing for both
farmers and
customers through
negotiations based
on financial
transparency.



keep our soul.” (George Siemon, quoted in *The Nation* <www.thenation.com/article/how-swim-against-current>).

Payment practices. The cooperative’s board of farmer directors, in dialogue with the executive management team, determines the target payment price to CROPP’s 900-plus dairy farmers. Payments are initially calculated on a base component price determined by adequate levels of butterfat, protein and other solids of a given farm’s milk. The base component price is then adjusted up or down after a series of milk cleanliness tests including somatic cell and other bacteria counts. Finally, a regional premium is added to the adjusted price based on the costs of producing milk in given regions of the country.

In 2008, regional price premiums per hundredweight of milk varied from \$1.50 in the Upper Midwest and West to \$5 in New England and the Southeast. Finally, \$75 is deducted from each month’s milk check to pay for trucking, and CROPP farmers are required to make a one-time purchase of preferred stock in the cooperative equal to 5.5 percent of their gross annual sales to CROPP. For a description of CROPP’s payment plan and information on regional premiums, see the CROPP website.

CROPP is currently reviewing its methodology for calculating its base price and regional premiums (Jerry McGeorge, interview, 10/3/08). Farmer contracts with CROPP can be terminated by either party with a 180-day notice, and CROPP makes it clear to its members that the pay prices are target prices that can be adjusted downward depending on the financial performance of the cooperative. For the past several years, CROPP has earned a profit of one to two percent of gross sales, and nearly half of this profit has been distributed to its farmer members. For some farmers in some years, this bonus has amounted to over \$100,000 (Theresa Marquez, interview, 3/20/07).

Pricing Organic Valley products. When pricing its dairy products, CROPP starts with the price paid to farmers and adds on layers of costs associated with the processing and distribution of the product, including a reasonable profit margin. Pricing decisions are made by the cooperative’s vice president for sales and chief financial officer, who also take into account market conditions and the competitive landscape (Jerry McGeorge, interview, 10/3/08).

Communicating sustainable economics in the marketplace and with enterprise members. CROPP spokespersons emphasize the importance of stable, cost-of-production-based pricing for both farmers and customers through negotiations based on financial transparency. Given the volume of organic milk that CROPP markets, the cooperative is able to influence the price paid to

organic farmers throughout the industry (Jerry McGeorge, interview, 10/3/08).

Acquiring technical support. In its early years, CROPP received assistance with organizational structuring from groups like Cooperative Development Services <www.cdsus.coop> and similar groups. Currently, CROPP provides support to other groups on a range of fronts, including distribution services for smaller organic companies through Organics Logistics, LLC, and targets 10 percent of annual profits to a range of community organizations.

Future dynamics, as envisioned in 2008

Internal organizational issues.

Revitalizing company culture. The CROPP cooperative is growing rapidly. Fifty percent of its farmers and 35 percent of its employees have joined within the last three years. This makes socialization into company culture particularly important (Jerry McGeorge, interview, 10/3/08). “Culture is key and needs to be reinforced from all sides: employee culture, farmer culture and consumer culture.” (George Siemon, interview, 3/20/07). Mechanisms for reinforcing company culture include significant use of the Organic Valley website <www.organicvalley.coop>, interaction between employees and farmers at outreach events, and the semi-annual meetings of the milk pools. CROPP screens for “cooperative” people in selecting farmers and employees. “CROPP spends considerable time exposing employees and farmers to the co-op’s mission and the meaning of that mission.” (Jerry McGeorge, interview, 10/14/08).

Leadership succession. While the current CROPP leaders are not near retirement, the cooperative’s management is concerned about succession issues. “The first generation of managers is either organic farmers or people with a passion for organics. ...There’s a concern about the second generation.” (Mike Bedessem, interview, 3/7/07).

“Company culture is strong ... I’m not worried about the managers. ...I’m more worried about the farmers ... Democracy can be weak ... I have faith in the current board, but need to educate them on succession issues.” (George Siemon, interview, 3/20/07).

Issues with supply chain partners.

Food service as a growth area. CROPP sees food service as a potentially significant growth area (Jerry McGeorge, interview, 10/3/08).



Expensive feed prices are leading to a growing advantage for dairy farmers with enough land to grow their own feed.



Products labelled as pasture based could be a new market sector for Organic Valley.

Challenges with organic grain production. Organic feed production is not keeping up with organic livestock production, resulting in expensive feed prices and a growing advantage for dairy farmers with sufficient land to grow their own feed (Jerry McGeorge, interview, 10/3/08).

Potential shifting of distribution by rail. See “Processing and distribution partners,” page 10, and the section below on distribution efficiencies.

Economics and efficiencies.

Increased distribution efficiencies. CROPP has laid out the following scenario for its future logistics: 1) East and West Coast distribution centers, with the Cashton, Wisconsin, complex serving as the Midwest’s distribution hub and the replenishment center for the other distribution centers; 2) increased use of railroads for CROPP distribution—both east/west and north/south lines—as fuel prices climb and regulations on truck drivers increase; 3) increased use of “inter-modal systems,” which are wheeled containers that interface with trucks, railroads and ships for product transportation to Hawaii and Alaska (Doug Bean, interview, 3/20/07).

Reducing farmers’ input costs. Farmers’ input costs can be reduced through 1) on-farm energy generation including methane digesters, windmills, solar power, micro-hydropower and biodiesel; and 2) regional purchasing collectives for organic animal feed.

Strategies for a maturing market.

Continued growth of Organic Logistics LLC as a service/profit center. See “Selecting markets and supply chain partners,” page 9.

Growth in new market sectors. CROPP has targeted several new market sectors: 1) food service; 2) value-added products such as pasture-based butter and sliced cheese; and 3) markets outside the contiguous 48 states, such as Alaska and Hawaii (Jerry McGeorge, interview, 10/3/08). “Milk has been the leader in mainstream supermarket outlets, but we still have plenty of room for placement of other products such as cheese, butter, juice and eggs.” (Jerry McGeorge, interview, 10/14/08).

Organic plus. Moving up the organic pyramid. What features of Organic Valley’s pyramid model for the organic lifestyle might be effectively engaged to further differentiate and sell its products in an organic industry that is becoming more like the conventional market?¹¹ Fair trade? Pasture-based farming

¹¹The pyramid model can be viewed at www.organicvalley.coop/organic-defined/evolving-organic-lifestyle/.

systems? Bioregional foods and diets? Food miles? Animal welfare? Family farming?

"I have teenage children who are very aware of issues like global warming and carbon footprints. ... Their purchasing choices are very likely to be quite different. ... That should be good news for an organic food company." (Jerry McGeorge, interview, 10/3/08).

A mature Organic Valley: Has CROPP grown up?

Criteria for "too big." CROPP has historically believed the cooperative would be too large when it could no longer serve its farmers and customers well (Mike Bedessem, interview, 7/20/07; Jerry McGeorge, interview, 10/3/08).

Size has important positive consequences. CROPP's size and the strength of the Organic Valley brand enable the cooperative to exert significant influence over product quality and farmer pay price in the organic dairy sector (Mike Bedessem, interview, 7/20/07; Jerry McGeorge, interview, 10/3/08).

Regionalization has enabled CROPP to grow and remain effective. Clearly growth through regionalization has been a successful strategy for CROPP, enabling logistical efficiencies as well as regional identity and brand growth.

"One future scenario would be toward more autonomy by our regional pools and a 'federation of co-ops' ... but that would be a ways down the road and require lots of discussion ... Our regional structure is currently working well." (Jerry McGeorge, interview, 10/3/08).

Positioning values-based food supply chains in a troubled and contracting economy.

"This is a time of incredible flux. We don't have many answers because things are too fluid at the moment ... sales are definitely slowing down and we run the risk of becoming oversupplied. However, like all prudent businesses, we are currently testing our assumptions, re-examining our business practices and trying to position ourselves to provide our customers with products that they truly value." (Jerry McGeorge, interview, 10/14/08).



...growth through regionalization has been a successful strategy for CROPP, enabling logistical efficiencies as well as regional identity and brand growth.



Case update

The following statistics provide a framework for understanding Organic Valley's experience during 2009-2011¹²:

- The number of organic dairy farmers belonging to Organic Valley's parent cooperative, the Cooperative Regions of Organic Producer Pools (CROPP), grew from 1,024 in 2008 to 1,411 in 2011. CROPP remains the largest organic farmer-owned cooperative in North America in terms of farmer members and annual sales.
- The number of regional milk pools increased to 43, representing many geographical regions of the U.S.
- Due to the recession, sales of Organic Valley dairy products remained flat in 2008 and 2009 at about \$460 million. Sales grew in 2010 and 2011 to \$483 million and \$639 million, respectively, producing annual growth rates of 5 and 32 percent. Dairy product sales of \$774 million are projected for 2012, an increase of 21 percent.
- During 2009 and 2010, branded products accounted for slightly less than 50 percent of the cooperative's dairy sales, while private label sales accounted for nearly 20 percent. The sale of bulk organic milk to dairy manufacturers accounted for more than 25 percent of total sales. During 2011, sales of branded products rose to 52 percent of dairy product sales.

During this time period, Organic Valley has also:

- Weathered the recession through a combination of supply management strategies within the cooperative and an external partnership with Stonyfield Yogurt;
- Aimed at maintaining Organic Valley-branded dairy product sales at 50 percent or more of total dairy sales;
- Increasingly recognized its financial investors and treated them as stakeholders;
- Increased enterprise efficiencies through generating energy on-farm, initiating a new market exchange for organic grain and animal farmers, and further developing the Organic Logistics food distribution company; and
- Launched a company-wide effort to identify and develop new leaders for the CROPP cooperative by focusing internally on Organic Valley farmers and staff.

¹²All statistics were provided by Jerry McGeorge, CROPP's director of cooperative affairs.

The following discussion provides a deeper understanding of Organic Valley's opportunities, challenges and actions during this time frame.

Adapting and protecting values-based supply chain pricing principles: The recession and supply management. As conventional and organic milk prices plummeted in early 2009 due to weakened demand brought on by the recession, CROPP decision makers responded through two supply management strategies. In February 2009, the cooperative's seven-farmer board of directors, acting on the advice of the executive management team, reduced farmers' pay prices by \$1 per hundredweight of milk shipped, representing a decrease of 3.5 percent. In July, they introduced a quota program that required farmers to cut by seven percent the amount of milk they delivered to the cooperative until January of 2010 (Jerry McGeorge, interview, 8/10/11). According to one observer, Organic Valley dairy farmers experienced about a 10 percent reduction in revenues, probably less than one-third of conventional dairy farmers' reductions (see the graph on page 3), which averaged more than 40 percent.¹³

One reason these supply management strategies were successful was that Organic Valley is a lead player in the organic milk market. Other major organic dairy processors, such as Horizon and Hood, had to reduce pay prices and purchased volumes during the same time period.¹⁴ Thus, organic dairy prices as a whole stabilized in the latter part of 2009, and Organic Valley's production quotas were lifted everywhere except California (see below) early in 2010. According to Divisional Manager Kevin Kiehnau, "When we came out of 2009, we had our full pay price. By using a quota system, we were able to offer a steady pay price through that period. The return to normalcy was quick." (Kevin Kiehnau, interview, 2/22/2013).

Supply management strategies built into Organic Valley's organizational architecture were available when needed in 2009. Since the 1990s, Organic Valley as a new generation cooperative has successfully coordinated supply with demand regionally through pools. These pools are organized to add new farmers at a rate commensurate with the cooperative's penetration and sales growth in new markets. Each year, contracts with farmer members specify both price and volume. Members seeking to significantly expand or increase production need Organic Valley's permission to add more milk to their regional pools. For Organic Valley, a fundamental aspect of developing an effective supply management strategy has been limiting the number and rights of members and coordinating their production.¹⁵



**Supply
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Organic Valley's
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needed in 2009.**



¹³Barham, Brad. 2010. "Price Stability in an Era of Roller-Coaster Rides," *Status of Wisconsin Agriculture 2010*, Department of Agricultural and Applied Economics, University of Wisconsin-Madison (<www.aae.wisc.edu/pubs/status/docs/status2010.pdf>).

¹⁴Ibid.

¹⁵Ibid.



**During 2009,
demand for Organic
Valley's products
varied across
regions by as much
as seven percent.**



As a result of the economic downturn in 2009, Organic Valley learned this lesson that will inform future supply management responses: *Create a flexible system that recognizes differences among farmer members and regions of the country.* At the heart of a system built around this lesson is a meaningful appeals process that recognizes that every farm has a different story. For example, Organic Valley learned through the 2009 experience that farmers who have recently made capital investments to increase production deserve to be treated differently with regard to quota levels (Jerry McGeorge, interview, 8/10/11).

During 2009, demand for Organic Valley's products varied across regions by as much as seven percent. Supply management responses needed to reflect regional differences. For example, in 2010 the California pool was subject to production quotas for several months longer than Organic Valley's other regional pools (Jerry McGeorge, interview, 8/10/11).

Because Organic Valley successfully employed these supply management strategies, the co-op was able to maintain transparent price levels for all customers and resist pressures to provide special deals during periods of low demand (Jerry McGeorge, interview, 8/10/11).

Organic Valley also faced price pressures from the growth in private label organic dairy products in some of the nation's largest supermarkets. (For an analysis of this private label growth, see "The Big Organic Challenge," <sustainableindustries.com/articles/2011/05/big-organic-challenge>.) In fact, about 20 percent of Organic Valley's sales come from processing organic dairy products for private labels (Jerry McGeorge, interview, 8/10/11). After much discussion, the cooperative decided to enter the private label business to gain another income stream for the co-op's members and diversify the enterprise. As the cooperative's vice president of sales indicated, "The recession hit, and people traded down (to less expensive private labels) right away. We were very glad through the recession to have private labels. When you milk, you have to have a place for it to go" (from "The Big Organic Challenge," see link above).

Organic Valley also supplies bulk organic milk to a range of organic food manufacturers, including Stonyfield Yogurt in the Northeast (see the next section, below). In 2010 and 2011, bulk sales of commodity milk accounted for approximately 25 percent of Organic Valley's total dairy product sales. The cooperative's management is well aware of risks involved in depending too heavily on these commodity sales. As one of Organic Valley's senior staff put it, "We don't ever want to become predominantly a bulk milk supplier from which margins can be extracted by being played off against other suppliers." (Jerry McGeorge, interview, 8/10/11).

Such awareness informs Organic Valley's push to maintain its own strong brand identity in the marketplace. The cooperative's

goal is to have 50 percent or more of its total sales from Organic Valley branded dairy products. In 2011, sales of branded products accounted for 52 percent of total dairy sales, up from 42 percent in 2010 (Jerry McGeorge, interview, 2/17/12). The cooperative's top executives continue working to strengthen the brand through analyses and consumer surveys (see "Developing deeper distinctions," page 22). The comparative margins of Organic Valley's three major product areas show the importance of maintaining a significant percentage of branded products: branded—23.3 percent margin, private label—9.1 percent, and manufactured (ingredients and bulk milk)—4.5 percent (Jerry McGeorge, email, 5/14/12).

Strengthening relationships with strategic partners: Collaboration with Stonyfield. Organic Valley maintains strong relationships with processors, distributors and supermarkets across the country. But the cooperative's most important collaborative work in the last several years has been reframing and expanding its partnership with the Northeast-based organic yogurt company Stonyfield <www.stonyfield.com>. During the 1990s and early 2000s, the two organic companies worked under an informal understanding that Organic Valley would not market yogurt and Stonyfield would refrain from entering the fluid milk market.

However, in the mid 2000s, Stonyfield announced that it would produce and market organic fluid milk in the Northeast, where its brand is strong. After several challenging years of attempting to coordinate a fluid milk system, Stonyfield approached Organic Valley for assistance. Organic Valley agreed to manage the production, aggregation and processing of Stonyfield fluid milk in the Northeast, while both companies collaboratively marketed the product.

This new agreement is proving to be a win/win. Instead of managing logistical systems with which it has little expertise, Stonyfield can focus on strengthening its brand in the Northeast. The collaboration provides Organic Valley with an opening to Northeast markets through an established brand, as opposed to competing with Stonyfield.

In taking over the aggregation and management of the Stonyfield milk pools, Organic Valley has added 270 organic farmers. In addition to the Northeast, these farmers are located in Michigan, Indiana and Ohio. Coupled with strong membership in Wisconsin and Minnesota, these new farms create a significant ring of organic dairy farmers around the Great Lakes. According to a senior staff member, "The Stonyfield deal helped fuel the co-op's growth in 2010. It helped get us out of the recession." (Jerry McGeorge, interview, 8/10/11).

Strengthening communication with customers and consumers; Investors as a new stakeholder group. As detailed in the initial

case study, the Organic Valley website <www.organicvalley.coop> serves as an effective platform for communicating a broad range of information about the company to farmers, customers, consumers and investors. For example, the website allows consumers to locate an Organic Valley farmer in their area, shares information about products and recipes, points out the advantages of organic foods and farming systems and explains Organic Valley's mission and principles. Organic Valley is also using social media such as Facebook and Twitter.

Complementing these communication platforms, Organic Valley has established a farmer ambassador program. Organic Valley farmer members represent the cooperative and its products at store demonstrations and community or industry gatherings. Similar to the adopt-a-store program pioneered by the Country Natural Beef cooperative,¹⁶ Organic Valley provides farmer training and staff support for this successful avenue of outreach.

In addition to communicating with its constituencies, Organic Valley has lured new financial backers. Over the past six years, the cooperative has recruited more than 2,000 values-based investors. Through the sale of preferred (non-voting) stock to investors, Organic Valley has partially funded the construction of a new distribution center in southwestern Wisconsin and an addition to a new company headquarters. Communication with these investors revealed that they want to support the cooperative more than just financially. The leadership of Organic Valley now views these persons as more than passive shareholders and is developing ways for these consumer "influentials" to actively support the co-op, such as speaking with their neighbors or sharing coupons for discounts on Organic Valley products with them. As one of cooperative's senior staff members put it, "In addition to farmers, staff members, customers and consumers, we're now including investors as important stakeholders in Organic Valley." (Jerry McGeorge, interview, 8/10/11).

Developing deeper distinctions: Differentiating the Organic Valley experience through improved customer service. Organic Valley has historically differentiated itself in the marketplace through high quality products, stories and values associated with the cooperative's business model. They also make their mark through logistical services that include on-time delivery, traceability and recall capacity. The cooperative is now embarking on a new company-wide initiative to improve the experience of doing business with Organic Valley that involves a deep understanding of customer service. New service-oriented transactions throughout the supply chain include farmers, processors, distributors, retail buyers, investors and employees. The cooperative plans to provide educa-

¹⁶See the Country Natural Beef case study for more information.

tional and training sessions for staff prior to evaluating employees based on this deeper framing of customer service.

The cooperative also seeks to differentiate itself from privately owned competitors like Horizon by highlighting their cooperative business structure and farmer ownership. While Organic Valley emphasizes their “un-corporate” nature and cooperative structure on their website <www.organicvalley.coop/about-us/our-cooperative/our-co-op>, their research indicates that many consumers have a hard time understanding the cooperative business structure. They have found that the term “farmer-owned,” now featured prominently on their product containers, communicates their values more effectively.

Recognizing that the USDA organic standard is strictly production-oriented, Organic Valley has joined with others, such as the Domestic Fair Trade Association, in exploring “organic plus” standards, focusing on animal welfare, fair trade and/or grass-based farms. For instance, the cooperative was a leader in developing the pasture standards for the USDA organic program and is currently involved in a pilot project to explore domestic fair trade in organic dairy farming. Organic Valley seeks to strike a balance between the value of these deeper differentiations and the layers of bureaucracy involved in creating and verifying new standards, with particular attention to the impact on farmers (Jerry McGeorge, interview, 8/10/11).

Achieving greater farm and company-level efficiencies. Organic Valley seeks to support efficiency gains at both the farm and company levels. The Farmer Renewable Energy Program, established in 2008, supports efforts by the cooperative’s farmer members to reduce input costs and address environmental challenges through on-farm energy generation, including methane digesters, windmills, solar power, micro-hydropower and biodiesel. The cooperative supports such initiatives through sponsoring research, providing energy audits and offering technical assistance, including help with grant writing and administration <www.organicvalley.coop/about-us/sustainability/on-farm-sustainability>.

Based on the cooperative’s pool structure, Organic Valley created a grower pool to address the increasing challenge of ensuring an adequate supply and stable prices for organic feed grains. The grower pool pairs organic crop growers with organic animal farmers to negotiate fair and stable prices for both sides. The pool offers annual contracts for feed-grade grains, beans, oilseeds and hay grown in rotation <www.organicvalley.coop/newsroom/press-releases/details/article/organic-valley-forms-grower-pool-seeks-to-ensure-feed-supply-and-price-stability-for-its-co-op-memb>.

Organic Logistics LLC <organiclogisticsllc.com>, a wholly owned subsidiary of CROPP, Organic Valley’s parent cooperative, was



... Organic Valley has joined with others, such as the Domestic Fair Trade Association, in exploring “organic plus” standards ...



established in 2004 to help the co-op achieve greater efficiencies in the processing and distribution sectors of the supply chain. Operating from a state-of-the-art distribution facility near Organic Valley's headquarters, Organic Logistics offers refrigerated and frozen food logistics with weekly deliveries to organic, natural and national grocery distribution points in all major U.S. markets. Designed to provide a range of high quality, affordable distribution services for smaller organic food companies such as yogurt and juice manufacturers, Organic Logistics creates significant efficiencies for Organic Valley, which needs full trucks to get the best rates through its contracted freight agreements.

As discussed in the original case study, above, Organic Valley has historically chosen to contract with other companies for dairy processing rather than own a facility. However, if Organic Valley leadership decides it would contribute to stability and efficiency, they may consider partnering with or buying partial ownership in existing processing facilities (Jerry McGeorge, interview, 8/10/11).

Addressing organizational maturation: Revitalizing company culture and growing leaders internally. Organic Valley is a rapidly growing enterprise. Nearly 50 percent of its farmer members and employees have joined the company within the past three years. In 2011, more than 100 new farmers and 130 new employees joined the CROPP cooperative (Jerry McGeorge, interview, 8/10/11). This influx of new people makes socialization into company culture particularly important. In addition to screening for "cooperative" people, Organic Valley reinforces its company culture through employee seminars, its website, interaction between employees and farmers at outreach events, and semi-annual meetings of farmer leaders from the 43 milk pool regions. A national farmer-leader meeting was held in October 2011 to get input on the cooperative's future and discuss the responsibilities of farmer leaders.

A new leadership development program at CROPP will focus on developing leaders from within the organization. As the co-op's director of cooperative affairs, who will facilitate the program, said, "How much longer can we successfully recruit high-quality leaders and managers from the outside to relocate to a small rural town like La Farge, Wisconsin?" (Jerry McGeorge, interview, 8/10/11). Consistent with the cooperative's overall approach, the new leadership development program will focus on both farmers and employees.

Policy note

Some Organic Valley farmers participate in subsidy programs, but Jerry McGeorge does not know how many (Jerry McGeorge, interview, 2/14/11). He believes that a small minority receives funds for conservation projects. Organic Valley members do not benefit from the WIC program because states rarely allow the purchase of organic foods. CROPP has received two different USDA Value-Added Producer Grants. The co-op has facilitated the participation of their farmers in some federal and state research programs. A few farmers have accessed grants for producing biomass for energy.

George Siemon was heavily involved in the development of the National Organic Act in 1990, and Organic Valley also worked on the grass-fed beef standard. Many Organic Valley farmers have used the federal organic cost-share program, but Jerry thinks few have taken advantage of crop insurance. Organic Valley products carry several federally approved labels, such as organic and kosher. Because most of Organic Valley's fruit and vegetable producers are small-scale, the co-op lobbied for appropriate protections in the Leafy Greens legislation.

Jerry is on the Organic Advisory Council of the Wisconsin Department of Agriculture, Trade and Consumer Protection, but Organic Valley does not receive any state support for its activities. The company does keep abreast of Federal programs implemented at the state level, such as the Farmland Protection Program. Organic Valley has not utilized any local programs, but if a co-op member asks for help with a grant application, the co-op will provide assistance. As for private sector support, Organic Valley offers its own organic transition support program for dairy farmers joining the co-op.

Organic Valley was involved in talks surrounding the USDA decision to fully de-regulate GMO alfalfa. They participated in the Farm Bill discussion for the first time in 2008 and will probably do so again in 2012. They would like to see the federal milk marketing orders dismantled and a better program put in place.

Credits

Jerry McGeorge and other Organic Valley managers provided the interviews upon which the original case study, the update and policy note were based. The policy note was authored by Kate Clancy, University of Minnesota Institute for Sustainable Agriculture.

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Organizations involved with this report:

The National Initiative on Agriculture of the Middle is concerned with a disappearing sector of midscale farms/ranches and related agrifood enterprises that are unable to successfully market bulk commodities or sell food directly to consumers. See www.agofthemiddle.org. The initiative has three areas of emphasis: new business and marketing strategies; public policy changes; and research and education support.

The Center for Integrated Agricultural Systems (CIAS) is a research center for sustainable agriculture in the College of Agricultural and Life Sciences, University of Wisconsin-Madison. CIAS fosters multi-disciplinary inquiry and supports a range of research, curriculum and program development projects. It brings together university faculty, farmers, policy makers and others to study relationships between farming practices, farm profitability, the environment and rural vitality. For more information, visit www.cias.wisc.edu or call 608-262-5200.

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Photos from Organic Valley.