



# Mid-scale food value chains case study: Organic Valley

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## Research Brief #80

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

### Origins of Organic Valley

In 1988, a small group of organic vegetable growers in Wisconsin formed a cooperative to provide stable and fair prices to its members. With the addition of dairy farmer members and an explosion of consumer interest in organic dairy products, the dairy segment of the co-op grew rapidly. It evolved into Organic Valley, the largest organic, farmer-owned cooperative in North America. With 1,300 members in 30 states and the Canadian province of Ontario and more than \$500 million in gross sales, Organic Valley member farms represent about 10 percent of the certified organic farms in the U.S. Currently, dairy farmers make up 75 percent of the co-op's members and their products account for 85 percent of Organic Valley sales. This Research Brief focuses on Organic Valley's dairy business.

Beyond providing economic stability to its members and ensuring that its products and farms meet USDA organic standards, Organic Valley seeks to achieve a broad range of other ambitious goals—regional farm diversity, ecological and economic sustainability, energy conservation and increased use of renewable energy, good tasting and nutritious food, healthy livelihoods and communities and advancement of cooperative principles. One example of how Organic Valley furthers these goals is its humane livestock care requirements that exceed national organic standards.

### Key characteristics

Organic Valley has expanded rapidly with the growth of demand for organic milk and is well-positioned to benefit from consumer interest in products that can be traced back to family farms. From its base in the Upper Midwest, Organic Valley now operates in eight regions across the U.S. and has developed a regional identity in each. The cooperative employs more than 500 people, most working in a newly constructed headquarters and distribution center in rural southwestern Wisconsin. The professional staff handles day-to-day management under the guidance of a seven-person, farmer-elected board of directors.

Organic Valley follows a set of strategies to accomplish its central goal of maintaining relatively stable farm prices that, over time, are above commodity dairy prices. First and foremost, the co-op carefully manages the supply of products. The co-op only adds new members when excess market demand warrants it. Prices paid to Organic Valley farmers are based on production costs and vary from region to region.

In order to keep supply and demand in balance, Organic Valley has in the past maintained a reserve pool of non-member, waiting list farmers who sell organic milk to the co-op when demand outstrips supply. Organic Valley's reserve pool policy is being revisited and revised. Organic Valley also processes some fluid milk into dried milk powder when supply exceeds market demand.

Organic Valley's rapid growth over the last decade means that a significant proportion of both members and employees are relatively new. The co-op understands the importance of selecting new members and staff who fit not just in terms of production and logistics, but also beliefs and ethics. Once the co-op selects new members and employees, it devotes significant energy to ensuring they learn and embrace the co-op's culture.

Organic Valley requires that entering farmers make equity investments equal to 5.5 percent of their annual sales to the co-op. These investments earn returns for the farmer owners. Employees are also able to buy co-op shares, and Organic Valley has raised capital by selling non-voting shares to the public.



*Cattle on Organic Valley member farms must meet the co-op's pasture requirements.*

The co-op places a priority on preparing for the future by providing both an exit strategy for current farmers and a means of entry for the next generation of producers. As Chief Financial Officer Mike Bedessem puts it, “We know what our job is: It’s to get 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.”

In a more fundamental sense, all of Organic Valley’s operations and objectives relate back to three broad principles: sharing knowledge, assuring transparency and developing trust in dealing with members, employees and supply chain partners. These principles set it apart from many competitors in the marketplace.

### **Strategic supply chain partners**

Organic Valley focused from the start on selling its products through multi-stage supply chains rather than through direct marketing channels. It credits much of its early success to contracting out the key parts of its processing and distribution systems rather than sinking money into bricks and mortar and performing these supply chain functions itself. Today, Organic Valley owns only a single processing facility.

Organic Valley has made significant internal investments in supply chain logistics, and leaders view excellence in this area as critical to the co-op’s success. In fact, Organic Valley has spun off its logistics arm as a full subsidiary of the main business. Organic Valley now operates its own distribution center in the Upper Midwest and may build additional distribution centers in the East and West. Its distribution capacity is also available to smaller organic food enterprises across the country.

The standard arrangement followed by the co-op is to have milk processed on contract with dairy manufacturing plants located close to the regionally organized milk pools. Organic Valley prefers working with family-owned independent processors when possible. It also contracts for transportation of both its raw milk and finished products. Organic Valley owns some trucks, but the bulk of its milk hauling is done by independent trucking companies, many of which are smaller, family-owned firms.

Organic Valley recognizes that it must clearly communicate product standards and develop a strong brand identity to succeed in the marketplace. Early on, Organic Valley products were primarily available through natural food stores. With the mainstreaming of organic food, the majority of sales are now in conventional supermarkets. Organic Valley works hard to support both types of stores and has not allowed the development of relationships with larger supermarkets to negatively impact sales through smaller natural food stores. Says Theresa Marquez, Chief Marketing Executive, “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.”

Organic Valley farmer ambassadors reach out to supply chain partners and final consumers to tell the Organic Valley story. The co-op recognizes that it can have an impact in the overall functioning of the organic milk market, since it is a significant player.

### **Response to market conditions**

The organic dairy sector has been hit hard by the current economic recession. Organic Valley has responded to weakening markets in a variety of ways. It has reduced both pay prices and production levels for all of its dairy farmer members rather than drop the farmers with least seniority, or those in specific regions. Excess milk is sold to the conventional market.

The cooperative believes it has an obligation to all of its members, and that sticking together will allow all members to prosper once the economy rebounds.

A longer version of this case study (and related research) is available at two locations:

<http://www.cias.wisc.edu/economics/case-studies-profile-mid-scale-food-enterprises/>

<http://www.agofthemiddle.org/>

The Organic Valley web site is:  
<http://www.organicvalley.coop>

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*The Center for Integrated Agricultural Systems (CIAS) brings together university faculty, farmers, policy makers and others to study relationships between farming practices, farm profitability, the environment and rural vitality. Located in the College of Agricultural and Life Sciences at the UW-Madison, it fosters multidisciplinary inquiry and supports a range of research, curriculum development and program development projects.*

*For more information on the Center or on the research in this Brief, contact: CIAS, 1535 Observatory Drive, UW-Madison, Madison, WI 53706 Phone: (608) 262-5200 E-mail: [ramcnair@wisc.edu](mailto:ramcnair@wisc.edu), [www.cias.wisc.edu](http://www.cias.wisc.edu). This Research Brief is part of a series. Contact CIAS for other titles. CIAS staff members are grateful for the reviews of this Brief by UW-Madison and UW-Extension faculty and CIAS Citizens Advisory Council members. October, 2009.*

