

## Case Study 12

**Value-added, Marketing Cooperative***Whole Farm Cooperative – Long Prairie, MN**Interview with Herman Hendrickson, Chairman of the Board*

Case study by

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**Introduction**

The future for many farmers in rural America appears bleak, and the only solution projected in the face of low commodity prices and natural disasters may be to become part of the processing and marketing industries (Sinner, 2000). The food chain, as it is called, begins at the input level, and moves through the stages of production, transportation, manufacturing, marketing, wholesaling, and retailing, before reaching the “top,” the consumer. There are a variety of creative solutions whose foundations rest on this idea of capturing a greater amount of the profit made as an agricultural product moves up the food chain.

A marketing cooperative is used to build markets for members’ products and services, to improve members’ bargaining power, and to improve product quality. Value-added processing adds value to members’ products to increase members’ share of retail mark-ups (Cooperative Life, 2001). An agricultural value-added processing/marketing cooperative combines marketing with processing. The cooperative is a business organization owned by farmers to collectively sell their products and to accomplish collectively functions they could not achieve on their own (Kennedy, 1998). Value-added processing cooperatives provide a potential means for farmers to capture a greater share of the value of their product, keeping more dollars in their local and regional economies instead of exporting raw commodities and dollars away from rural communities (Volkmer, et al., 1998).

A value-added processing/marketing cooperative has the opportunity to enhance its members’ income through greater involvement in value-added activities and by processing and marketing in greater volume. These cooperatives can increase farmers’ market share (Kraenzle, 1999). Some cooperatives also help low-income people by providing jobs and nutritious food.

By virtue of being locally owned and controlled, with benefits distributed based on participation, cooperatives are considered by some to be an ideal mechanism for rural community development. Cooperative members value the experience because it allows them to develop skills in business management, communications, and group problem solving (Zeuli, 1999). The operation of a cooperative also provides leadership development in rural communities.

A value-added processing/marketing cooperative has opportunities to make connections which are farmer-to-farmer, farmer-to-consumer, farmer-to-school, farmer-to-church, farmer-to-advocacy groups, and rural-to-urban because of its proximity within a community. These cooperative connections in the local food system increase social cohesion and trust within the community, and provide vital local networks and places where people have a chance to

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interact. Networks within the local food system help farmers distribute information, offer moral and technical support, and share resource leads (Center for Integrated Agricultural Systems, 2000). The coalition and trust provides cooperative members many network benefits which suggest research directions for understanding regional agri-food networks (Jarosz, 2000).

### **Whole Farm Cooperative**

“We are committed to creating farms that nourish our families spiritually and economically and sustain the environment, and to providing eaters not only with safe wholesome food but with a clear sense of who and where their food came from.” (Whole Farm Co-op, [www.alexweb.net/wholefarmcoop](http://www.alexweb.net/wholefarmcoop))

This quotation from the first page of the Whole Farm Co-op web site presents the guiding philosophy of this value-added processing, marketing cooperative. The cooperative represents 30 member families in central Minnesota. Located in Long Prairie, MN, these producers have come together to create a cooperative that allows them to raise animals and grow food under sustainable agricultural practices for a unique customer base. The niche that the Whole Farm Co-op producers have carved for themselves, composed largely of church, social and economic advocacy groups, and university personnel, is proving to be fruitful and allows these member families to support themselves while remaining true to their underlying values and principles.

### **History**

The founding members of the Whole Farm Co-op were associated with each other through the Sustainable Farming Association of Central Minnesota. They recognized that, over the years, the smaller farmers have been going out of business because the price of agricultural products cannot sustain a smaller family farm and that middlemen like the processors, distributors, and retailers are the ones making money on their food. The members brainstormed about how they as producers could capture more of the customer's food dollars, and decided that they had to get involved in the marketing and distribution of their own products. The members conceptualized the idea of marketing to the three primary colleges in the area: St. John's University, the College of St. Benedict, and St. Cloud State University. The members successfully applied for a grant from the Sustainable Agricultural Research and Education (SARE) division of the USDA to develop the “Feed the Saints” program in 1995. However, the project never became a reality.

The Whole Farm Co-op was born out of the momentum begun by this first attempt to organize. One of the founding members was involved in other social and economic justice groups, and had a pivotal conversation with an individual who suggested that the members of her church would be interested in becoming the customers of a new cooperative. From that first church in south Minneapolis, the Judson Memorial Baptist Church, the Whole Farm Co-op began to deliver to other churches and advocacy groups, as well as to individuals. The founding members were allowed to apply the unspent SARE grant money to this new cooperative initiative, providing enough resources to get them going on marketing, processing, and distributing. The co-op got started out of the basement of one of its members' homes, collecting the necessary freezers, crates, and delivery vehicles one piece at a time and was incorporated in

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1997. The business now fills the lower level of a building whose former history as a butcher store is imperceptible amidst the bustle of the cooperative's operations.

The strongest boost to the co-op's business came when the Minnesota Food Association community administered Commodity Food Program was funded by the State of Minnesota in 1997. Monies appropriated by the state legislature stipulated that people on state assistance could get vouchers to purchase Minnesota grown food products. Because it is difficult to determine the place of origin of food at most grocery stores, the Whole Farm Co-op was approached because it was determined to have not only locally produced food, but an ability to distribute it. In the last couple of years that the program has operated, more than half of the co-op's income has come from these vouchers. The Commodity Food Program has proven to be "a blessing and a curse." Unfortunately, the program is funded on a year-to-year basis which will likely not be renewed in the following year. As a result, the co-op will struggle to cover basic operating expenses until it can increase its customer base through alternate methods.

### **Organizational Structure**

The Whole Farm Co-op has grown in the last four years through the gradual addition of equipment. The members have donated many of the materials themselves, including a chest freezer, a refrigerator, and igloo coolers. Larger equipment, like the walk-in freezer, was acquired when an area grocery store went out of business. Other useful items, like crates, a scale and label printer, and three delivery trucks, have been purchased carefully, as the growing organization could afford.

Gaining membership in the cooperative is a fairly straightforward process. Any producer who abides by sustainable growing practices and pays the \$5 membership fee may join the cooperative. Although in theory the producers may be from anywhere in Minnesota, the bulk of the co-op members are in Todd, Douglas, Morrison, Wadena, and Stearns counties in central Minnesota. This has been useful in keeping the arrangements of transporting products between farm and co-op manageable. At this point, there has been no need to restrict membership due to an overabundance of any particular product. The membership is composed of individual farmers as well as some specific programs, like the White Earth Land Recovery Project's Native Harvest Program, Headwaters International, and Camphill Village Minnesota.

The capitalization of the cooperative is unique. While the co-op stores many items like processed meats and cheese products as well as some dry goods within the building, they do not own these products. Other products, such as fresh produce, are kept on the farm and delivered to the co-op when a customer has placed an order. The producing members retain ownership of their products, and only when that item sells does the producer receive payment for the item and the cooperative receive a percentage of the selling price, which is used to cover overhead costs and reinvest in the business. Members are also free to utilize other markets for their products.

Management of the Whole Farm Co-op consists of a nine-person board, all of whom are members and producers. The board serves as macro-managers, setting direction, philosophy, and principles for the organization. Herman Hendrickson, who was the interviewee for this case

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study, serves as Chair of the Board. Herman became involved with the co-op as a resource for members who wanted to begin processing milk into cheese due to his long career in the dairy industry. He now markets his own onions, garlic, and shallots through the co-op. Other board members include Mike Salber, Roy Perish, Phil Arnold, and Mark Fickus, who run bio-diverse operations, Nancy Potter, Jack Pesta, and Marcia Rapatz, who each raise vegetables, and Gilda Gieske who raises vegetables, poultry, and eggs. The board members are elected by the general membership at the annual meeting held each March.

Dave Verdoorn is the operations manager of the co-op. He works on an hourly, full-time basis and is not a member or producer. He fills the customer's orders and works to make sure the delivery schedule is clear to members and customers. Other part-time, hired personnel include an Operations Assistant, Sue Klose, and three Sales and Marketing personnel, Christine Gomez, Dawn Nye, and Tim King, who is also a vegetable producer.

Most of the activities of the cooperative are handled by members on a volunteer basis. Certain members are designated to be responsible for coordinating the supply of particular products, like the beef or the poultry. Deliveries, which occur every Tuesday on a schedule to various drop sites mostly in the Minneapolis/St. Paul metropolitan area, are also coordinated on the receiving end by volunteer staff. In addition, a Management Committee meets every Wednesday to discuss how the deliveries went the day before.

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### **Customers**

The delivery system is currently set up around 34 drop sites at churches, social and economic justice groups, some private homes, and co-op food stores. Whole Farm Co-op customers currently include groups like the Land Stewardship Project, the Minnesota Food Association, the Sustainable Resources Council, churches of the Minneapolis/St. Paul Catholic Dioceses, the Minnesota Council of Churches of Christ, and two faculty members at the University of Minnesota. Individual customers send their orders to the co-op through regular mail or e-mail, and deliveries are made to the applicable drop site or home once a month on a Tuesday schedule. Volunteer coordinators at the drop sites take responsibility to distribute orders from there to the individual customers.

Only a couple of distribution points actually lie in central Minnesota where the farmers produce; most of the customers are urban, in the Minneapolis/St. Paul metropolitan area southeast of Long Prairie. Herman attributes this lack of customers in the local, rural communities to the fact that many townspeople in rural Minnesota have direct connections to farmers from whom they prefer to buy fresh products. Many of the urban customers, on the other hand, are looking to buy Minnesota-grown products and support the rural economy but lack the direct connections of the more rural residents.

Herman explained that the general food customer base is divided into three components. The majority of consumers, as many as 60 percent, consider the bottom dollar as the most important component to their food purchases. Another 10 percent are committed solely to purchasing foods based on quality or health, like those marked organic, regardless of their price. This type of consumer already buys from organizations like the Whole Farm Co-op. The remaining 30 percent represents the co-op's target market. These people are concerned about what they are buying, but they feel it is too expensive to buy organic. Herman believes that the largest component of this target population lives in urban areas, where many consumers seem more aware that there may be issues with the food they buy in the grocery store. He believes that the two E. coli food contamination problems that have occurred in the Midwest in the last year have contributed to this awareness. Such customers think that organic foods are a healthy alternative, but they don't know exactly what it means. In addition, they probably are not aware that sustainable farming conditions can actually produce food that is even better than organic. Though organic production may regulate the use of chemicals, it says nothing about the conditions under which the animal is raised. Though some farmers may use organic farming practices, other factors may prevent them from becoming certified, like application costs and

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Herman believes that education focusing on health and quality is the key to expanding the co-op's customer base, drawing from that 30 percent of the market that is open to the kinds of products offered by the co-op. Though Whole Farm Co-op's prices are competitive, they are sometimes higher than conventionally raised products. By stressing the benefit of sustainable agriculture as well as a nutritious diet, Herman is convinced that customers will be interested in what the co-op has to offer.

### **Network**

The Sustainable Farming Association of Central Minnesota was the primary agency through which the founding members of the Whole Farm Co-op made contact, and it has continued to serve as a resource for sustainable farming practices. One of the association's programs that has helped Whole Farm Co-op members is the "grazer's group," which has "pasture walks" in the summer where farmers visit the pasture program of another farmer so they can discuss it and learn from each other's growing practices.

Many other organizations have proven to be important in the development and success of the Whole Farm Cooperative. The Sustainable Agricultural Research Education (SARE) division of the USDA has provided financial assistance through grant money. The Service Corps of Retired Executives (SCORE) has provided technical business advice. The Minnesota Community Food Program provided a large pool of customers with which to expand the business. The Agriculture Utilization Research Institute (AURI), the Minnesota Department of Agriculture, the Blandin Foundation in conjunction with Todd County, and the University of Minnesota have all proven to be excellent resources. The Minnesota Food Association and the Sustainable Resources Council are supporting legislative bills that are designed to increase the commitment to "Minnesota Grown" products among state institutions, which is important for the future of the co-op's business.

Certain regulations ensure that regular contact is had with USDA inspectors. All foods must be processed in a state-inspected facilities. Meats need to be prepared in a state-inspected facility, and the co-op has made sure to support local businesses when making the choice of facilities. When working with state and federal inspectors, Herman indicated that a business-like, professional attitude has proved to be most beneficial. He suggests that it is best to be straight-forward and "acknowledge stupidity and lack of knowledge" when applicable.

### **Guiding Philosophy and Growing Practices**

"It's not just my own farm that I have to sustain; I have to sustain my environment and my community, too. Because if I don't sustain that, what am I working for? We are all in this together," says Herman Hendrickson of the Whole Farm Co-op.

All items marketed through the Whole Farm Co-op are produced under sustainable farming conditions. As Herman explained, "Our sustainability is not just an economic sustainability, not just an environmental sustainability, but it also has to do with how our animals

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are raised.” For the co-op producers, “we” includes not only humans, but the animals. As compared to the “conventional system,” animals are not raised in feedlots. Rather, they are grazing animals, where they have access to grass, bugs, and generally those things that impart a distinctive flavor to the meat. They are also raised without growth hormones or antibiotics. Vegetable and grain crops are raised without pesticides or petroleum based fertilizers. To be sustainable, the farm itself must be able to sustain its own operation. Generally, farms must be bio-diverse, raising products like corn, soybeans, grasses, buckwheat, dairy cows, beef cows, pigs, and chickens. There will be minimal inputs that come from off the farm, and manure may be recycled onto the fields to raise crops. The main crop will likely be grass which is harvested by the cows as they graze. Hay is grown to sustain cows over the wintertime, since year-round grazing is not feasible in Minnesota. In general, the amount of grain given to animals is minimized.

Grazing is one of the practices that contributes to sustainability. However, the producers believe that it is not just important what one does on the farm, but also what one does to the off-farm area. Issues like soil erosion and runoff into water supplies impact the overall health of the environment. Farming practices like crop rotation and using environmentally friendly alternatives to traditional pesticides, herbicides, and fertilizers reflect this concern for the environment and commitment to sustainability.

### **Challenges**

Many of the challenges that the Whole Farm Co-op faces may be seen as opportunities because as they are addressed, the co-op will become stronger. One prominent area in which improvements need to be made is that of management. The first suggestion involves the co-op’s business plan, which has not been altered since 1999. Herman feels it needs to be updated and made into a “living, growing, changing document.” A greater number of committees would also be useful to better delegate responsibilities and micro-manage tasks. A potentially profitable committee would be one that is dedicated to identifying and applying for available grants. Another improvement relates to what Herman refers to as “Standard Operating Procedures.” Currently, there are no clear procedures outlining what anyone should do or who should be consulted when there are problems. The group needs to designate who has the authority to handle problems as well as answer day-to-day questions like when an item should be taken off or put on the product list and what needs to be done in the area of physical maintenance.

This relates to a second challenge – the need for a general manager. Because the Whole Farm Co-op was established on a small amount of capital and gets operating capital almost solely through the percentage taken from sales, there has never been enough money to hire a full-time general manager. As a result, a handful of volunteers from the membership at large have taken on many responsibilities and there is a sense that some of these people are getting burned out. The low capital investment to become a member in the cooperative has been essential to provide access to the small farmers whose sustainable farming practices constitute the foundation of the co-op. However, not having the capital to have a person in authority who can serve as the “ramrod” and make decisions has been a hindrance for the organization.

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While it is not likely that the organization will be able to support a full-time general manager in the near future, interim solutions may alleviate some of the pressure felt by the most active members of the co-op. The standard operating procedures could help to designate responsibilities and a chain of command. Another solution may include adding a volunteer component to the requirements for membership so that activities could be delegated more equally among all members.

### **Opportunities**

The University of Minnesota's West-Central Experiment Station at Morris has done grazing research, and the co-op is working with them to coordinate a program to confirm the healthy qualities of its products. One example may be to take milk samples every 15 days of member producers' milk and conventional farm milk, and have them analyzed for their fatty-acid composition. With the help of this experiment station, Herman expects to be able to demonstrate that the products raised under sustainable farming practices are healthier. This will contribute to the co-op's ability to market its products, by helping to substantiate that what the consumer is getting is what the co-op is "preaching."

The Whole Farm Co-op currently has a solid infrastructure which is able to at least handle fully twice the capacity of customer's currently held. Opportunities include developing the co-op's identity within a "niche market," reaching out to consumers who want to buy Minnesota-grown produce and want "food with a face." The co-op is looking at expansions to the current emphasis that exists on the urban market. They are looking at running an open-house to attract customers in the local area and are also planning a delivery route to co-op stores and drop sites to the north of Long Prairie. Although the idea that their produce is "probably 2,000 miles fresher" means that they have to minimize the amount of energy expended in terms of getting produce to the co-op and then getting it distributed. Because a greater service area involves greater complications, Herman believes that the Whole Farm Co-op may still serve as a model for someone else to do the same thing in their local community.

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**Photograph 1. Whole Farm Co-op, Long Prairie, MN, December 2000.**



**Photograph 2. Mike Salber and Herman Hendrickson,  
at the Whole Farm Co-op, Long Prairie, MN, December 2000.**

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**Photograph 3. Whole Farm Co-op operations, Long Prairie, MN, December 2000.**



**Photograph 4. Cheese products, Long Prairie, MN, December 2000.**

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**Photograph 5. Meat products, Long Prairie, MN, December 2000.**



**Photograph 6. Dry goods, Long Prairie, MN, December 2000.**

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