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Value-added Processing
Dakota Style Processing, Clark, SD

Case Study by

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Abstract

The combination of low farm prices, uncontrollable weather fluctuations, and higher interest rates had, over the last several decades, created a crisis in rural America. South Dakota is just one of many states experiencing continued decline in number of farms, loss of its young adult population through out-migration, loss of community vitality, and declining numbers of people involved in farming. Where stability in farm numbers and population is found, there appears to be a link to opportunities to supplement traditional farm income. Alternatives range from off-farm employment of one or both spouses to the development of value-added processing and marketing.

One such example of the latter is that of the Dakota Style Company of Clark, South Dakota. The “farm crisis” of the early 1980s served as a stimulus for the Bob Campbell family to seek out a means of getting through “tough times.” The need to supplement their income resulted in the value-added processing and marketing of a unique potato chip. Experimentation led to success as the operation grew from a family operated business to employment of 17 persons when it was sold in 1998. The business is still located on the original farm, and is owned by three couples who employ 22 persons, maintain four eastern South Dakota delivery routes, have warehouses in Aberdeen and Sioux Falls and a manufacturing plant outside of Clark, South Dakota. They have distributors in Custer, Rapid City, and Chamberlain, South Dakota; Bismarck, North Dakota; and four in Minneapolis, Minnesota. Their mail-order business accounts for 10 percent of total sales and ranges from Norway to Puerto Rico to California. The company has expanded its product line to pretzels, popcorn, jerky, salsa, and cheese dips all marketed under the “Dakota Style” label.

Advice from the present owners Rick and Jody Dilts to those interested in entering value-added processing and off-farm marketing consists of: 1) plan on spending twice as much as you thought was necessary to get started; and 2) be able to delegate authority so as to be able to “get away” and not “burn out.” A critical element in the decision to enter this arena is that one need be comfortable working with the public, other retailers and in the supervision and management of a work force.

Introduction

This case example will focus on a direct off-farm marketing operation which involves value-added processing of an agricultural product. The study begins with an overview of the economic and demographic conditions which served as the stimulus for the development of this business venture. Second, there is a discussion of the historical events that led this farm family seeking a means to supplement their farm income. An attempt will be made to analyze the strategies that went into the marketing of products, financial viability, and planning for the future of the operation. The case example will conclude with a discussion of the challenges, barriers, and recommendations to others interested in the value-added processing and marketing of

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Economic/Demographic Conditions

South Dakota along with most other states in the upper Midwest has had a long tradition of net out-migration of population beginning in the late 1930s.¹ Selective in nature, the out-migration process has drawn for the most part from the young adults 20 to 34 years of age. This age-specific out-migration resulted in 20,000+ persons leaving the state of South Dakota during the 1970s only to more than double to 52,000 during the 1980s. Thirty-two thousand of these out-migrants during the 1980s were between 20 and 34 years of age.

This out-migration of population has also taken its greatest toll on the rural farm and non-farm segments of the state.² One of every three (33.4%) rural farm residents in 1980 had left the farm by 1990. According to the 1997 Agriculture Census, of the 30,000 remaining on the farms, more than 1-in-4 (25.8%) are using something other than the farm for their major source of income.

The direct result of the loss of farms has been the impact on local communities. With the exception of those communities located adjacent to large urban centers, most all rural communities have lost population over the last several decades. A more recent phenomenon of the 1980s and 1990s has been the fact that even some of the larger urban centers in the state are now experiencing losses of population.³ Hardest hit by the last several decades of out-migration and loss of farms has been the East-Central region of the state.

The East-Central portion of the state falls immediately outside the western edge of the corn belt. This area has been severely impacted by excessive rainfall and flooding in the 1990s adding to the continued hazards of weather, low farm prices, and high interest rates of the 1980s.

Clark County, South Dakota

Located near the center of the East-Central region of South Dakota is Clark County. An analysis of economic and demographic data would indicate Clark County to be representative of the East-Central region of the state. With a population of 4,359 persons in 1990, it has experienced the loss of one in every nine residents (13.6%) during the 1980s. During this same period 655 persons had left the rural farm portion as the number of farms had been reduced from 669 in 1982 to 397 in 1997, a 41 percent loss. With no urban communities in the county, the seven rural non-farm communities in the county were reduced in population by 836 persons during the same period. Per capita income was \$9,280 in 1990 with a poverty rate of 18.8 percent for the county. More than one in four children (27.5%) under age 18 years were living in

¹ Net-migration is calculated by adding the natural increase (births minus deaths) to a base population and contrasting with actual population counts. A resultant + is in-migration and — is out-migration.

² Definition: Rural Non-Farm = small towns under 2500 population. Rural-Farm = open country farm and ranches.

³ 1990 U.S. census counts and 1998 estimates show urban centers such as Aberdeen, Huron, Mitchell, Madison, and Sturgis losing population.

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poverty households. A population pyramid of the county reflects the age selective nature of out-migration with the loss of 15-29 year old and the resultant increase in the proportion of elderly 60 years of age and older.

As many farm families struggle to stay on the farm, many have found it necessary to supplement the traditional farm income with alternative sources. As pointed out earlier, the 1997 Agriculture Census indicated that one-in-four farms (25.8%) in the state relied on alternative sources of income as their major source of livelihood. In Clark County, 141 of the 397 farms (35%) left in the county in 1997 indicate their major source of income to be other than that of the farm. As one-third of the farm families have found it necessary for one or both parents to seek off-farm employment, many of the remaining 256 farms which depend solely on farm income have found it necessary to supplement that with alternative sources. Value-added processing of agriculture products, direct on and off-farm marketing of agricultural products, use of farmers' markets, and food co-ops served to supplement household income and allow families to remain on the farm.

Clark, South Dakota

Clark, South Dakota is the county seat town in Clark County and the largest (1,292 persons) of the seven towns located in the county. The town serves as a farm service community but has a somewhat unique feature as the center of a very small "potato belt" in the state and as the home to a number of food processing plants. The largest plant (McCain Industries) employs 180 persons and processes such products as french fries, tater tots, and hash brown potatoes under its own and Orida labels. These off-farm employment opportunities rarely are found outside larger urban areas in the state. These companies serve to provide the local area with an alternative source of income seldom available to other communities of comparable size throughout the region and state. Yet, even these unique features have not been able to offset the loss of farms and farm families from the community and the county.

Dakota Style

A farm family struggling on a 1,800 acre farm outside Clark, South Dakota in the midst of the "farm crisis" of the early 1980s found it necessary to find supplemental income. Bob and Betty Campbell struck upon an idea of experimenting with the production of potato chips after having been exposed to the Hawaiian "Maui Chips." Utilizing the farm house kitchen to deep fry the chips, the couple experimented with the production of a unique chip in texture and taste. What came to be marketed as "Industrial Strength" potato chips set their product off as unique from other competitive brands. What began as an experiment in 1985 soon grew into a flourishing off-farm marketing business. Increased sales required a move from the farm house kitchen to setting up the manufacturing process in the remodeled barn. By 1999, this had grown into a \$1 million business with 22 employees and a payroll of more than \$220,000 annually. Still housed on the same farmstead and utilizing the same expanded barn for processing, the business has grown in size of physical plant, volume of sales, and number of employees.

At present the original farmstead has grown to include large storage facilities to accommodate 1.3 million pounds of potatoes, a modern office building, and warehouses to handle the final product. What began as the processing and marketing of a single product has

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now developed into the marketing of the “industrial strength” chips in six flavors, pretzels, jerky, sunflower seeds with multiple flavors, several varieties of regular and microwave popcorn, as well as salsa and cheese dip (see Appendix for details). All products other than the original chips produced on the farm are contracted with other processing plants according to Dakota Style requirements for quality. These products are packaged and marketed under the Dakota Style label. Those contracting companies process and package pretzels, salsa, and cheese dip as well as sunflower seeds in Minnesota and popcorn in Nebraska. The manufacturing of chips at the farm site utilizes locally grown potatoes for a portion, whereas the bulk of the potatoes used are imported from Texas, Missouri, and the Red River Valley of North Dakota. Apparently, the storage of potatoes over long periods of time leads to discoloring of the chips making the import of fresh potatoes necessary. Such discoloring is not as critical in the production of other potato products. Other materials utilized in the processing and sale of the potato chips consist of purchasing boxes from Sioux Falls, South Dakota, film for the bags and packaging from Wisconsin, oils from Chicago, and seasoning from Illinois and Wisconsin.

Labor is recruited locally from surrounding communities including Clark which is closest to the farm. The 22 employees occupy positions ranging from plant production workers, office workers, route salespersons, and management. The company has four delivery routes covering eastern South Dakota with warehouses located in Aberdeen and Sioux Falls, South Dakota. In addition, the company has distributors in Custer, Chamberlain, and Rapid City, South Dakota; Bismarck, North Dakota; and four located in Minneapolis, Minnesota. The mail order portion of the business accounts for 10 percent of total sales. Regular orders come from as far away as Norway, Puerto Rico and California (see Appendix for order form).

Bob and Betty Campbell’s family started the “Dakota Style” business in 1985 and operated it as a family business along with their sons, Chad and Scott, until 1998. A desire to return to full-time farming resulted in the Campbell family selling the business to three local couples who have continued the operation at its original location. The Campbell’s presently operate a 3,000-acre farm nearby and raise potatoes for the Dakota Style plant. The day-to-day operation of the plant and business is handled by co-owners Rick and Jody Dilts who live in the farm house at the plant headquarters.

Interviews with Rick Dilts, the operations manager, provided insights into the history, present status, and future plans for the business. Rick indicated that they have already expanded the work force from 17 to 22 since taking over the business in September of 1998. The continuation of a newsletter (see Appendix), a web-site, and addition of new products makeup some of the innovations. Physical plant limitations serve as a barrier to expansion at the present site. There has been encouragement by local lenders to relocate the plant in the community of Clark. Yet the tradition of the original plant and use of the “barn” will surely play a role in a decision to relocate. When Rick was asked what advice he had for those interested in entering the direct off-farm marketing of a value-added product, he responded, “figure what is going to cost you to get started, then double that figure because there will be many unanticipated expenses.” Second, he emphasized the need to learn how to delegate authority. He felt the reason the Campbell family decided to sell the business was the inability to “get away from it.” Rick has appointed shift supervisors who can manage operations in his absence.

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One aspect of off-farm direct marketing not mentioned but which soon becomes apparent is the need for someone involved in the business to be a “people person.” Someone who can meet the public, interact with suppliers and distributors, and maintain a productive work force is critical to success. Often the independence associated with agriculture and farming works contrary to those traits needed to succeed in the value-added processing and marketing of agriculture products.

Conclusion

Farm families will need to continue to seek alternative sources of income so as to maintain their operations. While most will probably do so through off-farm employment, others more adventuresome, will seek success in organizing farm co-ops or getting involved in value-added processing along with on- and off-farm marketing. Whichever route is chosen, agricultural statistics would indicate that given the inability to control weather and farm prices that those areas of greatest stability in farm numbers and population are those with opportunities for supplemental income. Whether this is on or off the farm, it would appear that diversification of their income source will be critical to success.

The “Dakota Style” business serves as a prime example of a success story which began as an experiment in value-added processing of an agricultural product. The extent to which the off-farm marketing of the products has resulted in support for the original owners, the present owners, and their numerous employees speaks to the role of diversification of income in agriculture.

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Photograph 1. Dakota Style Truck, Clark, SD, Fall 1999.



**Photograph 2. Dakota
SD, Fall 1999**

Style Potato Chips, Clark,

For Further Reading

Agriculture in Transition:

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Value-Added Agriculture:

Publications:

- Direct Farm Marketing and Tourism Handbook*. University of Arizona Cooperative Extension Service, Tucson, AZ. Website:
<http://ag.arizona.edu/arec/pubs/dmkt/Opportunities.pdf>
 This handbook has the following articles:
 "150 Ideas for Adding Additional Value to Your Product and Expanding Your Business."
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 Tronstad, Russell, "Direct Farm Marketing Options."
- Richards, K. And D.S. Wechsler. 1999. *Making it on the Farm: Increasing Sustainability Through Value-Added Processing and Marketing*. Elkins, AR: Southern Sustainable Agriculture Working Group.
- Ware, Alan E. 1999. "Value-Added Opportunities for Small Farmers." Poteau, OK: The Kerr Center. warp.nal.usda.gov:80/afsic/nsfc/2iie2.htm. December.

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Websites for Value-Added Processing:

www.cals.cornell.edu/dept/cardi/publications/innov/hilchey.html

www.rrtrade.org.ngp/Workgroups/Value-Added.htm

auri.org/

Website for “Dakota Style”

www.dakotastyle.com