

FOOD HUB CASE STUDY

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Monforte Dairy and Home Farm

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Inspiring Lives.

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RATIONALE

In 2010, Monforte Dairy (Monforte) used an innovative funding option, a Community Shared Agriculture (CSA) system with a 5-year dividend payout in cheese, to fund development of a dairy processing factory. With the CSA subscription period coming to an end in 2015, the company continues to innovate. The business has recently purchased a farm property, and has offered a second CSA subscription to back this venture. Ruth Klahsen, the owner and head cheesemaker at Monforte, envisions a farm that acts as an incubator, supporting up to eight young farmers. Monforte sources milk from local small-scale goat, sheep, cow and water buffalo farmers to produce high quality cheeses, and its model provides an example of an innovative, entrepreneurial approach to funding a dairy processing business venture.

BACKGROUND

HISTORY AND FOUNDING

Owned and operated by Ruth Klahsen, Stratford's Monforte is Ontario's oldest artisanal dairy, in operation since 2004. Prior to becoming a cheesemaker, Ruth was a professional chef. In 2008, Monforte



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went through a major transition when the dairy it was operating from became unaffordable, and Klahsen sought funding to get her own dairy operation financed and built. She turned to an

innovative financing model, based on the farming CSA model of an upfront yearly payment for weekly harvest shares, but adapted for her cheese business. Using this system, she was successful in raising the capital required to build her own dairy. The campaign, called Monforte Renaissance 2010, had subscribers purchase cheese shares, with three different levels of subscription. In return, the subscribers received five vouchers for one year's worth of cheese to spend on Monforte products. With this financing model, the debt for the business moved from being held by traditional lenders (such as banks and credit card companies) to actual individuals who were paid in cheese, and who were able to have a personal relationship with the dairy. The initiative raised \$500 000, and the success of this campaign led to the Government of Ontario investing money in the business through the Rural Economic Development Plan. Monforte has since grown to include a combined restaurant and storefront in Stratford, a retail outlet in Toronto and, as of Late February 2015, a cheese school developed with support from Ontario's Local Food Fund.

GOALS AND MANDATE

Monforte's main goal is to be a high quality artisanal producer of Ontario cheeses, and to provide training and education for future artisanal cheese makers to build a high quality artisanal cheese market in Ontario. Monforte partners with farmers who share the philosophy of using environmentally sustainable and humane practices, including pasture-raised herds and GMO-free feed.

NEXT STEPS - THE HOME FARM

With the CSA subscription coming to an end after five years, subscribers began asking Klahsen if there would be an option for renewal. She had always had an interest in acquiring land and helping young farmers access it, so saw an opportunity. A farm that Klahsen had been considering purchasing for a number of years was going to be for sale, and she felt that the time was right to purchase. The farm meets the needs of Monforte because it is on the major highway into Stratford (Highway 7/8), an ideal location for an on-farm retail outlet. The farm, called 'Home Farm', is 40 acres, and the initial idea is that it will serve as an incubator farm for seven or eight young farmers looking to start farm businesses. Monforte is currently collaborating with the not-for-profit FarmStart (which supports new farmers) to decide how to choose farmers for this land and determine what type of farming arrangement would be most appropriate. Farm Credit Canada (FCC) has provided the initial capital for the mortgage. Monforte has entered into an open mortgage with FCC, and hopes to pay off its debt as subscriptions to the CSA are purchased. Klahsen envisions a farm that provides an opportunity for farmers, and offers diverse products: "I want to do different stuff, like I want to grow hazelnuts...and I want to be doing fruits... and I want to make bitters, not for cocktails but digestive bitters... I want to grow hops for beer. So, we are looking for 7-8 farmers that will do a variety of things." The farm will have a farm-gate sales retail outlet, and will host workshops on a variety of topics, such as fermenting and canning.

ACTORS INVOLVED AND TARGET MARKET

Monforte sources milk for the dairy from local farmers within about an hour of the dairy (from near Owen Sound to Ingersoll). The farmers in the network are all small-scale farmers who share Monforte's commitment to sustainable agriculture and ethical treatment of animals. All the herds are on pasture, and the dairy uses seasonal milk (allowing the herds to stop making milk for part of the year) meaning it does not make cheese from October to January. At the time of research, there were 15 farmers in Monforte's network, although in the past there have been up to 20 participating farmers. The change reflects changes in the milk market, specifically a shortage of sources of goat milk.

In addition to its dairy suppliers, Monforte also has a direct relationship with a local pig farmer. Monforte feeds its whey to the pigs, and the pigs are then used for charcuterie meats and other pork products in the restaurant. The business also sources crackers and honey from the same farm. Monforte has 28 employees employed directly in business (at the dairy, retail locations, restaurant and Farmers' Markets), and many are seasonal workers, with only core staff employed in the winter months.

Monforte uses a direct sales model to develop its market. Direct sales account for the majority of total sales and include farmers' market sales (in Stratford, Toronto and London) and sales at the storefronts. Approximately 10% of the product is sold directly to restaurants (mainly in Toronto), and a small percentage to specialty stores.

With the Home Farm, Monforte will be engaging with the farmers chosen to farm the land and their networks. Although the target markets for the farm products are not yet known, some of the products will be sold to Monforte's restaurant and in the retail stores and farmers' market stalls. Monforte is also interested in the Home Farm serving the broader public, and may potentially open the farm to gleaming by not-for-profits at the end of each farm season.

SCALE OF OPERATION

In 2014, Monforte grossed 1.96 million dollars in sales, and Klahsen estimates that the business needs to gross 2.2 million in order to be stable and profitable.

At the time of research, the cheese factory:

- Had 5 800 square feet with state of the art technology.
- Produced about 30 different kinds of cheese.
- Had a 20-year lease agreement, with the option to purchase.
- Sourced dairy from 15 farmers.
- Had begun the process of setting up an artisanal cheese making school to train future Ontario cheese makers.

As of November 2014, Monforte also owned:

- A 40 acre farm on the major highway between Kitchener-Waterloo and Stratford with an open mortgage held by Farm Credit Canada.
- The restaurant and retail store in downtown Stratford (called 'Monforte on Wellington').

IMPACTS AND BENEFITS

Participation in Monforte directly benefits the 15 farmers in the network and the staff employed by the business; however, its impacts also extend to the emerging

artisanal cheese industry in Ontario. The industry has been made stronger by the presence of Monforte, and by the personal investment Klahsen has made into making high quality cheese, which raises the reputation of Ontario cheeses generally. She has helped create a market for local Ontario cheeses, supported small-scale local dairy farms and has trained future Ontario cheese makers. The creation of the cheese school has the potential to strengthen these impacts.

The unique business model that Monforte employs has created a community of farmers and consumers that share the values of environmentally sustainable and humane farming, and ethical consumerism. Some consumers feel that they are making an ethical and environmental investment, and are using their purchasing power to support a business they believe in. Although the impacts of The Home Farm are not yet known, this venture will extend Monforte's community to include new farmers who will have access to farmland in an area that is agriculturally rich and located in close proximity to markets.

APPROPRIATENESS OF SCALE

IDEAL SCALE

Monforte Dairy operates at the scale of an artisanal dairy. As Klahsen defines it: "The definition of artisan is you bring in milk from 20 farms, and they should be small farms and then you make everything by hand. So I am not interested in getting any bigger than [this]." Monforte is still approximately \$360 000 away from the yearly gross sales total that would make it profitable, however that revenue is expected to come from improvements in cheese making efficiencies rather than scaling up the business.

With the dairy currently at the desired scale and the CSA subscription plan ending, Monforte has chosen to move in a new direction with the Home Farm, to fulfill the vision of having a direct connection to the local farming landscape through land ownership.

CHALLENGES AND LIMITATIONS

An ongoing issue at the dairy operation is the lack of skilled cheese makers in Ontario. A lack of skilled workers is problematic for a cheese operation because of the volumes that are being used to make a batch of cheese. Klahsen provides one example where her staff, which she notes is very good, made a poor decision in the process of making a cheese. The result was only a 30% cheese yield from 200 000 litres of milk. Klahsen notes: "So when you [mess up] for me, you [mess up] huge! But there is no way to train people, there is no education, there is no accreditation, there are no apprenticeship models." The gap in training and education provided the motivation for Klahsen to start the cheese school.

A second challenge is access to capital. Klahsen explains that: “Access to capital is ... [the] hugest thing. You know you have potential in your business and you can’t afford to make the next step, you can’t afford to buy more milk in.”

Specifically, access to capital is required against existing inventory. In the cheese industry, there are times when the value is sitting in inventory, and there is limited cash flow. Monforte is only able to pay farmers within 60 days, which is difficult for the farmers in the network. If capital were available against inventory, issues of cash flow would be alleviated.

STRATEGIES FOR SUCCESS

LESSONS LEARNED

1. Leveraging social capital for financial capital

As an artisanal business, Monforte has the ability to leverage social capital to create financial capital. This is achieved through a creative business financing model. The innovative model that Monforte used drew on existing social connections while also creating new personal relationships and an enhanced sense of community. It would not have been possible if the customers who invested in the CSA did not trust the business. As Klahsen states on the company blog:

“[T]hat was such a wonderful debt. It was so great. To repay those vouchers on a weekly basis was huge in terms of the pleasure that it gives. You know you have other debt. You have bank debt and credit card debt that you need to service and those are sometimes painful just because they’re not based on relationship. When someone comes to the market with you and you exchange vouchers for product that you’ve helped make, that’s like the coolest relationship for debt that there is. We know that we can service that much debt, so then the thing is what do we want to buy or acquire or utilize where we can keep that debt going because it’s been so good for the company in just creating some kind of community.”

(<http://story.monfortedairy.com/csa-futures-farming/> , 2014)

This model has worked so well that it is being used again by the business to finance the Home Farm. The location of Monforte, close enough to major Ontario markets (such as Toronto and London), facilitates the creation of the direct relationships that the business has drawn upon.

2. Actively looking for solutions to fill gaps in the system

Monforte has continually identified gaps in the cheese system in Ontario. Rather than passively allow these gaps to create problems for the business, Klahsen has actively sought out solutions. For example, the lack of training or certification for cheese makers in Ontario has been a big issue for the business. Klahsen has worked to train employees, and has started the cheese school specifically to grow the artisanal cheese talent pool in Ontario. In the case of the Home Farm, Klahsen recognized that there is a need to create innovative places for young people to access farmland and to grow crops that are not easily sourced in Ontario. At the time of the interview, the staff from Monforte were planning a trip to Italy and the United Kingdom for late fall 2015 to explore potential models for running the Home Farm, further demonstrating a dedication to innovative solutions.

RELEVANCE BEYOND THE CASE STUDY

Monforte provides an example of how a small-scale cheese hub has used innovative financing, in the form of a multi-year CSA subscription, to finance its business. Just as Monforte adapted the CSA model from fresh produce farming, there is the potential for other food businesses to adapt this model to meet their needs.

Monforte is a business leader in the Ontario artisanal cheese industry, and its high quality cheeses have helped expand the market for and reputation of Ontario artisanal cheeses. The training that will be offered at the dairy will help further grow this young industry. A thriving industry will benefit small-scale dairy farmers, providing them with new markets and consumers. The Home Farm, as an incubator farm for young farmers, may also provide an innovative model to address the issue of access to farmland for young farmers.