

FOOD HUB CASE STUDY

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Organic Central

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Organic Central: Morrisburg, ON

Rationale

Organic Central describes its operation as “Canada’s first organic food park – a developing hub of independent organic agri-food businesses – working together to re-create the local food processing capacity, bridge that gap between field and fork, and bring more great organic food to your plate” (Organic Central, 2013). Its visionary, Tom Manley, is a leader in progressive agriculture in Ontario and owner of Homestead Organics, an organic grain processor that produces organic grains for food processors and organic animal feed. The implementation of the food park concept has proven to be quite challenging, and is thus illustrative for others.

Background Information

The story of Organic Central begins with the story of Homestead Organics, the latter of which grew out of a conversion from conventional dairy farming to organic grain production. The 1980s saw rises in interest rates that made capital-intensive farming more difficult. Further, the Manley family farm in Berwick, ON was suffering from soil degradation. Manley remembers, “the soil was heavy clay and without lots of microbials and organic matter, it was turning into stone!” However, by 1988, the cows were gone (and so was the debt, paid off with proceeds from the sale of dairy quota, cattle and equipment) and the fields were certified organic. Manley’s father saw an opportunity in organic grain processing and created Homestead Organics. Tom took over the business in 1997, and is now planning his next venture, an organic food park.

Manley conceived the idea for an organic food park in 2010. Homestead Organics was growing fast and working out of a modest and out-dated facility in Berwick, ON. Manley approached his local Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) development officer and the economic development officer at his local Community Futures Development Corporation (CFDC) to enquire about real estate listings. After viewing a few properties, a thought familiar to many small business owners crossed his mind, “I thought they were all too big and I couldn’t afford them alone.” That’s when the CFDC officer said, “yes, but there are people like you looking for space too, why don’t you talk to them?” This conversation sparked a vision for Organic Central, a place where organic food producers could come together and share preparation, warehousing and retail space, physical equipment, information technology (IT), human resource (HR) services, and invaluable business advice. The Organic Central food park model then, differs from a bricks and mortar type of food hub, in which a single business or non-profit organization typically aggregates and distributes food. While the collective operations at Organic Central would include the aggregation and distribution of food, the operation is better described as a series

of small businesses/organizations that work collaboratively in an organic food park. The collective activities of the businesses involved would, together, make Organic Central a hub for organic food processing in eastern Ontario.

Growing businesses or organizations in the organic sector are the ideal candidates for space at Organic Central. Homestead Organics is one such business. With the food park concept in mind, in December of 2013 Homestead Organics purchased a property in Morrisburg, about 40 km from the facility in Berwick. The property proved affordable for Homestead Organics on its own, and is big enough for some space to be rented by other entities in need of physical capacity to grow. Ideally, Manley envisioned a larger property more amenable to multiple independent businesses working under one roof, each with a need for privacy and controlled access to their respective processing areas. Investors and government funding agencies however, were not prepared to fund such an ambitious project.

Homestead Organics is currently the only participant at Organic Central. A large organic food distribution co-operative has expressed interest in establishing a distribution point at Organic Central, however, the company is currently financing the expansion of its main facility in southern Ontario. Three food processors have also expressed interest in occupying space at Organic Central, but for various reasons have not been able to commit. An organic beverage company opted to build near its existing location, an organic oat flour processor dreams of moving into Organic Central but is unable to secure the required capital, and an organic soybean roaster opted to re-build near its existing facility in order to satisfy an insurance requirement after a fire. Homestead Organics is in the process of transferring its operations from Berwick to the Morrisburg location, where Organic Central is being established. The facility in Morrisburg is 27,000 square feet (of which Homestead Organics uses about half) on 2.2 acres of land, complete with municipal water and waste, natural gas, 600 volt electricity, and easy access to highways and bridges serving Canadian and international markets.

Stories from Up and Down the Supply Chain

One of the primary drivers of Organic Central, according to Manley, is the opportunity for co-learning and sharing of resources and knowledge to better serve the local and organic food sector. As an organic hub or food park, Organic Central can facilitate networking among actors in the local organic food scene. Being networked is something that PCM Global Support Services owner and supply chain specialist, Peter Malone, stresses. “[A]n entity can be as good as they like, but if the other entities around them who form the structure of their supply chain do not perform the same way, then it disables that business.” Malone’s business works with actors up and down (and across) supply chains in several industries, one of which is organic food, to foster a relationship between

parties (in this case, organic grain growers, grain processors and food processors) that is centred on trust, openness and understanding. “So often, whether it be growers or processors or buyers, everyone has something to protect, but the way in which supply chains can grow and can be optimized is by openness of information. And that way, you can start to accrue the real value added components of the supply chain,” says Malone. Stevenson and Pirog (2008) describe supply chains that are based on trust and openness as “values-based chains” or “value chains.” Actors in the value chain become strategic partners with the shared aim of developing and enhancing all value chain



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participants. This stands in contrast to the competitive, adversarial and interchangeable relationships that tend to characterize more conventional chains (Campbell & McRae, 2013; Stevenson, King & Ostrom, 2011). Each individual actor is ultimately concerned with

improved business performance, however, by increasing communication, and ultimately, trust, actors begin to realize the impacts of their operations and specifications on other actors. Through open lines of communication and the development of trusting and dependable relationships, more workable and mutually beneficial arrangements can be made for all parties.

Malone facilitated a supply chain discussion at Organic Central in August, 2014 which brought together growers and grain and food processors with the aim of better understanding end needs and specifications. Manley suggests that while informal discussions about product specifications happen all the time between buyers and sellers, formal discussions of end-to-end needs amongst a variety of actors remain uncommon. Manley describes the discussion as “very helpful” for all parties. The model at Organic Central can help to further these conversations, by bringing organic actors into close proximity and by expanding networking opportunities.

Impacts and Benefits

By bringing organic food actors together under one roof and creating a “hub” of organic activity, Organic Central can alleviate some of the common challenges that face food businesses. The USDA’s *Regional Food Hub Resource Guide* suggests that lack of capital and access to facilities to store, process and distribute products are common barriers to local food producers and processors. Further, purchasing from a multitude of independent local businesses makes for high transaction costs for larger buyers, which will ultimately prefer buying from

one source (Barham et al., 2012). Organic Central can help to ameliorate capital shortages by gaining economies of scale through the sharing of services, storage and equipment. The model will also create a 'one-stop shop' for a wide range of local organic products from local businesses.

Beyond the potential economic benefits to businesses at Organic Central, the food park model has the capacity for more widespread rural economic development through the creation of value chains. Marsden, Banks and Bristow (2000) note that recent attention to the creation, operation and evolution of food supply chains makes the supply chain a "significant building block for a new theory of rural development" (p. 424). Marsden et al. further emphasize "short food supply chains" (SFSC) in their study of the impact of alternative supply chains on rural economic development in Europe. For Marsden et al., "short" refers to the number of 'links' in the supply chain, not physical distances between supply chain participants. This stands in contrast to long and complex chains in which primary producers capture a smaller proportion of total added value. Marsden et al. include "associational interfaces (networks)" as one dimension of SFSCs and describe them as, "highly significant in establishing trust, common understandings, working patterns, and forms of co-operation between different actors in a supply chain" (p. 431). In a case study of a Wales-based beef co-operative, they find that co-operative activity amongst producers was crucial in generating greater value added relative to traditional beef producers in the area. In a study of different cases across Europe, Renting, Marsden and Banks (2003) find that, relative to conventional agricultural practices, SFSCs generate net value added increases in rural economies across Europe. The increases range from less than one percent (Ireland) to as much as almost ten percent (Germany). Granted that value chains are but one of many ways that producers can improve margins and generate revenues, and that institutional state support varies across jurisdictions, these studies demonstrate the potential for value chains in facilitating rural economic development. The establishment of strong, trusting and open relationships among the economic actors better equips those actors to compete in an increasingly globalized economy. Their businesses can stimulate each other while also fostering a competitive edge, relative to conventional supply chains, that is based on trust and openness. In a setting like Organic Central, each participating businesses can benefit from access to the supply chains of the other businesses and be active 'links' in one another's operations.

Challenges and Limitations

Organic Central's potential does not come without limitations. A chief concern for Organic Central is a structural shortage of supply of organic commodities in North America, specifically grains (Manley also suggested that dairy suffers from an acute shortage of supply), which is limiting the growth potential of many organic businesses. Manley suggests that while the organic sector has been

growing at a rate of ten to twenty percent per year since the 1980s, recent years have seen supply shortages. “The production of organic commodities is not growing fast enough in North America,” says Manley. “It is not keeping up with the growth in consumer demand and the rate of attrition – as farmers leave for various reasons, retirement and so on.” While the supply shortage means that organic prices are very high, sometimes as much as triple conventional prices, there are still barriers for farmers to switch to organic. First, commodity prices remain strong in the conventional sector, reducing the inherent incentive to switch. Manley suggests that one reason for strong grain prices as of late is biofuel (ethanol) legislation, which creates an “artificial” market that inflates conventional grain prices. Second, there is a significant learning curve for farmers who go organic. “It is very difficult to come over to organic ... because there are costs of change, there’s risk, there is fear of yield problems, weed problems, [there’s a] learning curve,” says Manley. The nature of the organic commodities markets further hinders the incentive to switch. Conventional prices are driven by the Chicago Board of Trade (CBOT), a highly centralized exchange of grain contracts, led by the largest grain traders in the world. The organic market, however, relative to the conventional grain market, remains too small for the largest traders. “The organic sector is literally a free market... there is no central reference like the CBOT. Therefore, it is truly a free market that is very opaque and you have to make lots of phone calls to find out what’s going on,” explains Manley. While this provides actors in the organic sector with more flexibility, it makes price discovery very labourious. New entrants to the organic sector may have difficulty adjusting to this scenario. South of the border, organic producers, handlers and processors have some limited tools at their disposal to help with price discovery. The USDA does its own market price discovery and publishes prices each week, and a company called Mercaris is recruiting subscribers to post grain transactions and allow the company to publish price trends. But as Manley explains, “local conditions might be quite different than what is happening in the US.” Manley finds that those farmers with an ideological inclination to go organic have already done so and based on current conventional prices and the costs associated with transition, going organic doesn’t make sense financially for those less inclined to base the decision on ideology.

A second barrier for Organic Central, and for small businesses on the whole, is access to capital. Homestead Organics is a case in point. The company is currently trying to finance moving the feed manufacturing portion of its business to the new facility in Morrisburg, where grain cleaning for human consumption is already underway. As well, financial constraints have already prohibited some organic businesses from making the move to Organic Central (see above). Don Pittis (2014) suggests that part of the problem for small businesses has been the strategy adopted by Canada’s banks, which in recent years has depended on aspiring homeowners and the resource sector to take on loans and turn profits

for the banks. Homeowners with steady jobs and resource companies backed by high commodity prices have been a safe bet for the banks as of late. However, as oil prices plummet and concerns about the future of Canada's housing market continue to grow, Pittis suggests that the banks may need to diversify their lending strategies, hopefully to the benefit of entrepreneurs running small businesses and looking to build start-up companies.

Another challenge is the distance that existing businesses might have to move to set up operations at Organic Central. Established businesses near Ottawa, Perth, or Brockville, for example, may find it difficult to move to Morrisburg simply because their staff are likely to live near the existing location. Moving the business means longer commutes for those employees or those employees having to consider moving themselves and their families. A move could also mean having to hire new staff and the training costs associated with that.

A final limitation stems from the problems of supply mentioned above. Because of the limited supply, organic grain buyers have to reach outside of their local markets to secure production inputs. Manley admits that a lot of the organic grains in North America actually come from Asia and Eastern Europe. The chemical revolution in farming was delayed (or never taken up) in these areas and with demand for organic products surging in Europe and North America, producers in Asia and Eastern Europe are filling the gap. Thus, while supply chains may remain "short" in terms of the number of links, this serves



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as a barrier to organic businesses trying to obtain local certification. The province of Ontario and certification organizations like Local Food Plus require a certain amount of purchases to be made within provincial boundaries for certification. Homestead Organics, for example, is located in the eastern tip of

Ontario, literally a stone's throw from New York State, and just an hour drive from Quebec. Even if North American supply of organic commodities was strong, it would still make practical business sense for Homestead Organics to source grains from New York and Quebec, due to their proximity, likewise for supplying customers in those markets. "[I]t's natural and ecological, from a fuel energy and from a financial perspective, to service customers across an international [or provincial] boundary, but Local Food Plus doesn't like that. And the Ontario local food definition doesn't like that either. So in this far eastern Ontario area, the local food rules fall apart," says Manley.

Strategies for Success

Despite the challenges facing the organic sector, Manley remains optimistic. “In regards to the organic industry, there is a structural shortage of supply in North America, but the industry is still young and vibrant.” Manley has also been successful in overcoming the challenge of obtaining capital from banks by turning to private investment. Homestead Organics has managed to secure 35 different individual investors in the business, for a total investment of \$1.5 million. When asked how he’s been so successful in attracting private capital, Manley said, “the investor wants to know [that] they’re doing a good thing – investing in organic food. And they have confidence that the risk is reasonably low and they want to see a return on [their] investment. So if you can answer those three questions, [a business can] have lots of investments.” On approaching investors, he says, “there’s a way to ask them. You have to ask them often, you have to ask them properly, you have to give them a story, you have to give them a fair deal – an interest rate, you have to show them a viability – a business plan.” Manley’s success suggests that there is a large community dedicated to changing the food system in the hopes of securing a more sustainable future.

Homestead Organics is continuing the full integration of its operations in Morrisburg and recently has acquired the milling operations of Mountain Path Organic and Natural Foods. Flour milling will commence at the Morrisburg facility in spring of 2015 and continue to be distributed under the Mountain Path brand. Manley is uncertain whether or not other businesses will ever join at Organic Central. He has devoted much energy trying to build a team to advance the organic food sector in eastern Ontario. Moving forward, Manley’s efforts will focus on the expansion on Homestead Organics. Even if the Organic Central food park is never fully realized, it remains an intriguing concept. Insights from the experience documented here can help others understand the local organic food landscape.

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