EXPANDING THE SHEPHERD'S GRAIN BRAND:

THE CROSSROADS OF ECONOMICS AND SUSTAINABILITY

by:

Aaron J. Johnson

Assistant Professor of Agribusiness
Agricultural Economics and Rural Sociology Dept.
University of Idaho
PO Box 442334
Moscow, ID 83844
aaronj@uidaho.edu
208-885-5489 ph
208-885-5759 fax

Rodney B. Holcomb

Associate Professor of Ag Econ; Browning Endowed Professor of Food Science
Department of Agricultural Economics
Food and Agricultural Products Research and Technology Center
Oklahoma State University
Stillwater, Oklahoma 74078-6055
rodney.holcomb@okstate.edu
(405) 744-6272 ph
(405) 744-6313 fax

Expanding the Shepherd's Grain Brand: The Crossroads of Economics and Sustainability

Fred Fleming, co-founder of Columbia Plateau Producers, marveled out loud, "Well, in seven years of business we have built a market for 420 thousand bushels of wheat sold under the Shepherd's Grain brand – not bad. People really value what we are doing – producing grain in a sustainable way and holding true to a regional food model, one where they can put a face and name to the producers." Turning to Karl Kupers, his business partner and co-founder in the venture, he repeated the thought, "We are enjoying success in our business, despite our initial ignorance of what it takes to supply a branded food product."

"Yep, we certainly have been fortunate," Karl replied. He mentally retraced their steps, starting with landing their first customer using a pricing model that was part guess and part luck. "We have producers lining up to join us, we have developed close relationships with key supply chain partners, and we are facing a growing demand. Like I have said before, if we had done a business plan we would have talked ourselves out of it, but by ignorance of the difficulties and perseverance to overcome them, we have come a long way. To boot, we have helped 33 family-owned farms be economically sustainable while being environmentally sustainable."

Fred pondered Karl's words for a moment, but his thoughts quickly went to their customers and the supply chain. They have opened doors in the Pacific Northwest like Food Services of America and Sodexho, organizations that are players in their region and across the country. He thought that relationships like that would have opened doors to even greater sales numbers. "Hey Karl, I know we have more work to do in penetrating the market we currently supply, but what would happen if we could leverage our relationship with our supply chain partners to expand our market region? I mean we have a proven track record with folks in our backyard that have potential to extend our product across the country. What would that take?"

Like a running back diving through a hole in the offensive line, Karl quickly grab the idea and his mind was racing. "That would surely open countless doors. For example, we would be able to court national companies like restaurants that offer locally sourced food items. But we would have to be careful to do it in such a way that would not compromise our 'local, know-your-farmer model.' We would just have to build the system between the producers and customers that live and breathe in other food sheds. If we could do that, Katie bar the door."

Fred pondered on that idea for a minute. On one hand, he knew there was much more to do in the markets they currently served. There were big things on the horizon for their flour. With their recently awarded Value Added Producer Grant working capital money, they were poised to ramp up marketing efforts in their current markets. There were many flour users that could still be tapped as customers. But, on the other hand, he also knew that their business model could be a huge benefit to producers and flour users in other areas of the country. If it were truly possible to help producers be economically viable while doing good for the soil and giving consumers what they want, wouldn't that be something? As the possibility started to take root, Fred turned to Karl and said, "But where? Where could our business model really be received with open arms by producers and the flour users?"

"Great question!" Karl replied. "We know there are other places where demand for sustainably produced flour is strong and where producers are willing and able to deliver with sustainable production practices. Of course there is also the supply channel; they would have to have the capability and interest in milling and distributing an identity preserved flour. We built a value chain here by finding partners to do the specialty work like milling wheat. I think we could find like minded people in other regions that would love to partner with us."

Both Karl and Fred fell silent. They recognized the opportunity before them to expand their brand by reproducing their business model in another region or regions of the country. They also recognized that there were some big questions about producers, markets and supply-chain partners. If they did move to another area, some aspects of their business model would have to be adaptable. For example, sustainable production practices are not a one size fits all. As they change geography, typography and climate, not to mention grower experience and capabilities, sustainable production would look different. But what would need to remain fixed versus flexible? What criteria would they use to determine where to expand? Then of course there is the question of money. Their operating budget and margin structure affords them the opportunities they have to date, but there is not enough extra capital to take a run at another region. Even with all of the unknowns and the limited funds, Fred and Karl started discussing presenting the idea to their Board of Management for further discussion.

THE ROOTS

The Shepherd's Grain brand is the public face of Columbia Plateau Producers (CPP), LLC, which legally started in 2002. The corporation, based out of Reardan, Washington, currently has 33 sustainable family farms located throughout Washington, Idaho, and Oregon. The group has produced and sold over 400 thousand bushels of wheat for the flour market in 2009, and currently has more than 70,000 acres under direct seed production. But, in the beginning it all started with a commitment to sustainable wheat production.

Kupers, after a couple years of being a pharmacist, came back to his family's farm near Harrington, Washington, in the late 1970s. There, he continued to farm as his dad taught him until the mid 1990s. After a trip to Dakota Lakes Research Farm in Pierre, South Dakota, and extensive talks with Dr. Dwayne Beck, Kupers began direct seeding on his 4,400 acres. With the help of Washington State University scientists and others committed to direct seeding, Kupers figured out a crop rotation that staved off disease and weed pressures found in a mono-crop farming culture. The challenge for Kupers was to find a market for all of his novel products like sunflower seeds – fifteen in total.

Fleming, being the fourth generation to farm the same ground, knew he would be a farmer from an early age. But in the drought of 1977, Fleming, out of necessity, left his dad's farm and took another job. Over the next eight years, he learned other aspects of agriculture other than dry-land farming. During that time, he also started a seed company, which ultimately allowed him to go back to the family farm in 1985. With his industry exposure and experience with the seed company, Fleming became very marketing minded. He was constantly wondering how to change from a commodity price taker to being a price setter. But he was unaware of how to grow his wheat, take it to the mill, and be different from the other wheat products.

In 1999, Kupers's no-till and marketing efforts and Fleming's differentiation focus collided. In a meeting intended to bring outside the box thinking to dry-land farming, Fleming heard two speakers, Deborah Kane from the Food Alliance and Karl Kupers talking about direct seeding, that gave him the nugget he needed to achieve product differentiation. If he could produce his product with sustainable practices there might be a market out there for his product that would cut him from the commodity game.

Meanwhile, Kupers was moving down the path of marketing his products. He took numerous trips over to Seattle to learn what he could by watching shoppers at stores like PCC Natural Markets. He would pay careful attention to what people bought and ultimately struck up conversations with shoppers trying to understand why they bought what they did. After learning he was a farmer, people were usually very willing to visit with him. After watching and learning, Kupers had the idea he could sell his sunflower seeds and other products to markets like this.

The further he got into the ideas of sustainably producing and marketing his crops, he couldn't help but share his ideas. As he related his marketing ideas and production mentality to his son Kyle, the idea of Shepherd's Grain, the name, took form. Kyle noted that his dad was being a shepherd of the land, taking care of it in a way that was preserving its productivity for future generations. Kupers added the word grain and had the name for his product, Shepherd's Grain.

Late in 1999, Kupers and Fleming finally combined their efforts, starting down the collective path that would take them to a unique space in the market. But the road would prove to be difficult. They were changing more than conventional production practices. They would end up changing marketing paradigms, pricing practices, and foundations for transactions.

It wouldn't be until 2002 that CPP was officially formed with their first sales in 2003. Kupers and Fleming invited six other farmers into joining them as suppliers of sustainably produced wheat that first year, which was no small task. Kupers and Fleming had to convince producers to change practices if they were not already doing so, change the type of wheat produced (which was counter to farming culture on the Palouse), and take the chance that their efforts would pay off without the proof of customers on the front end.

THE EMERGENCE

The founders had the drive to market their wheat beyond the elevator. The usual farmer's story ended when they dumped their grain into the pit at the local elevator. Fleming and Kupers wanted to create their story to include the part of the food supply channel on the other side of the mill. In order to do that, they had to figure out a few things along the way.

The Market

If there was a story for farmers beyond the mill, it had to be driven by a market. By talking with people in the food industry, especially Doc and Connie Hatfield of Country Natural Beef, and reading countless articles, CPP farmers became convinced that there was a large eco-friendly customer base that wanted to know who produced their food. They hoped this customer base would value their direct seeding efforts and appreciate the higher quality product, which ultimately would ensure economic sustainability for producers in the long run. That gave hope that farmers would be able to pass their successful businesses on to future generations.

Evidence that a market like that existed was offered through organizations and programs that were being promoted in the Portland Metro area. For starters, there was the Food Alliance. The organization is a third party certifier that farms and other agribusinesses in fact are eco-friendly and treat their workers fairly. For CPP, the Food Alliance stood as an indicator that others cared about how their food was produced.

In addition, there was a strong movement in the Portland area to "know your farmer." This was evident in events like "Farmer-Chef Collaborative," an annual event that brought farmers together with chefs to talk about marketing and selling local food in local restaurants.

Probably one of the strongest indicators of the consumer's interest in knowing who produced their food came from Country Natural Beef (then known as Oregon Country Natural Beef). All the producers, both husbands and wives, were required to be in retail food stores a couple times a year. These producers would tell of stories where a six foot tall cowboy wearing his cowboy hat would stand in a grocery store and have a lively, positive discussion about how their beef was produced with people in dreadlocks and Birkenstocks.

It was clear as Fleming and Kupers surveyed the land. People wanted to know their farmers. They wanted to take advantage of their local food supply as much as they could. In the early years, CPP found this to be true for them as well. As they courted buyers, they soon found that these people wanted to know where their food came from to the point that they wanted to visit the farms. Through experiences of these buyer farm visits, CPP realized the power of that visit. "If we can get them to the farm, it is over. They see and touch the results of the production practices…living compost," Kupers noted.

Product

Now that CPP understood that a values-based market existed, they just needed to find the right

DIRECT SEEDING BENEFITS

Direct-seeding or no-till is the practice of seeding directly into the residue of the previous crop without tilling up the soil. This method not only requires new equipment but new weed and disease control management practices. The positive impacts include:

- Reduced plowing increases soil organic matter, nutrient content, and moisture retention;
- Reduced labor and input costs;
- Decreased fuel use and reduced emissions due to fewer passes through the field;
- Increased crop residue reduces wind erosion, provides wildlife habitat, and increases worm and microorganism populations in the soil;
- Reduced soil erosion and leaching of crop nutrients and pesticides into water systems (a significant problem on the steep Palouse hills);
- Increased carbon sequestration as changes in the soil's carbon-nitrogen cycle allow direct seeded farmlands to act as carbon sinks that can sequester 400-800 pounds of carbon per acre (up to 1.4 tons of carbon dioxide/acre/year).

The increased amount of carbon in the soil causes organic matter to increase and creates a better soil structure. In order to reduce the amount of chemical use, it is imperative to use an extensive crop rotation to avoid diseases and pests that may build up in the soil. Some of the crops they use in the rotation include garbanzo beans, lentils, and red beans.

product for that market. Fleming and Kupers, returning from Seattle where Kupers was unsuccessful in gaining a sales meeting with a retail store to pitch his numerous crops for their bulk bins, decided to focus their efforts on wheat – the product that they were really good at growing. Their attention was then turned to finding a variety of wheat that would yield the right type of flour for baked goods.

Working with Washington State University, Fleming and Kupers narrowed down the number of hard red spring wheat varieties to test. Then they went to the Wheat Quality Lab in Portland, Oregon, to narrow that small lot down to the best variety. In the end, they found two varieties of hard red spring wheat that could be grown on the Palouse. Both of these varieties had adequate protein and high gluten that resulted in high quality, good tasting flour that can be used for breads, cookies, and pastries. Over time, they also found varieties that would yield a low gluten flour and whole wheat flour.

On the surface, it seems easy enough to find these varieties and grow them. But it was certainly a counter movement to the farming culture in the area. Soft white varieties make up the vast majority of wheat produced in the Pacific Northwest. This type of wheat makes great noodles, something on which the region has built a reputation and markets. The region has made great inroads into the Asian noodle markets over the years and today over 85% of the wheat in the Pacific Northwest is exported to foreign markets for milling. So, for CPP to suggest growing a hard red spring wheat variety for local markets was definitely like a salmon swimming against the current. To make things more challenging, CPP was counting on producers to change conventional production practices.

In conjunction with the emergence of CPP, there was a growing interest on the Palouse by farmers to change to direct seeding. There are certainly challenges in making that transition, one of which is the tendency to want to go back to conventional tilling because of comfort. Also, aesthetics and social pressures are great. Fields in the transition period are not the weed-free fields so often seen on the Palouse. It takes time for the direct-seeding management efforts to take effect. In addition banks and other service providers would discourage the transition. This reluctance to embrace direct-seeding, especially by bankers, was rooted in the fact that in the early adoption period more wrecks happened than not. Luckily for CPP, several dedicated, smart individuals worked hard to figure out how to make direct-seeding work.

Given that sustainable production practices is part of the Shepherd's Grain story, CPP requires their producers to verify that the production practices they use meet certain standards. Specifically, it is a requirement that all producers of Shepherd's Grain wheat be Food Alliance certified. This allows them to easily and credibly claim environmental responsibility. In fact, CPP growers were the first Northwest wheat farmers to receive Food Alliance certification, something that gave their marketing message credibility in the eyes of the consumer.

Once they had their varieties identified, CPP needed to determine a flour blend that would work well for bakers. They worked closely with an experienced, influential baker over a two year span to test their flour. With the high quality milling traits of these varieties, coupled with the story of sustainable and local, the Shepherd's Grain brand would represent a unique product in a highly competitive, volume driven, faceless market. In 2003, they finalized their work and landed their first official sale of product.

Supply Channel

The business's first customer was Hot Lips Pizza, a local pizza company in Portland, Oregon. Hot Lips liked the sustainability aspect of how the wheat was grown and the local aspect of the company. On top of all that, they liked the quality of pizza crust that Shepherd's Grain flour produced. But, when Hot Lips placed their first order, CPP had a few more pieces of the puzzle to put together, specifically the milling and distribution of their flour.

The traditional flour supply chain is a nameless, volume driven, low margins game. It was almost unheard of to identify wheat by producer and maintain that identity throughout the supply chain in the midst of the myriad of commodity wheat products. This identity preservation is especially difficult when the existing supply channel, from grain elevators through mills, were set up for volume and speed. In addition, distributors were margin driven. Due to the dearth of small mills and the traditional distribution system, CPP had to figure out how to work within this supply chain. They would have to ask the traditional players to change their way of operating and the message they convey about flour. It was a tough proposition to sell. Fortunately for Fleming and Kupers, they did not fully understand the traditional supply chain or they may have believed it could not be done.

With their first customer in hand, CPP needed commercial flour milling capacity. Given the volume focus of the flour industry, it would require open minded, forward thinking people to take on this milling project. Fortunately for CPP, they found such a group of people managing the Archer Daniels Midland (ADM) flour mill in Spokane, Washington. Seeing the possibility in Shepherd's Grain flour to meet a growing trend in the market place, ADM signed on as a partner in the supply chain. Before the wheat is milled, ADM takes ownership of the product for liability reasons because they are changing the product form. They put the product in bags with the Shepherd's Grain brand on it and ship it to customers. Legally it is their product, but they leave the marketing effort to CPP.

As part of their efforts to develop and retain value of their product, CPP developed an identity preservation protocol with the help of their supply chain partners like ADM. The channel starts after harvest when wheat is stored in bins on members' farms or in other places where the grower is assured of keeping his or her wheat separated. On a planned schedule, that wheat is then shipped to ADM, where a unique blend of wheat is milled into Shepherd's Grain flour. In order to ensure that the product is 100% pure, ADM cuts the front portion and back portion of milling runs. This eliminates the one or two bags on the front and back of a production run that may have a portion of commodity flour in the mix. ADM then ships the Shepherd's Grain branded bags of flour to customers, including a number of food distributors. These customers value the idea that their product is traceable back to the producers that grew the crop.

The desire by CPP to build partnerships along the supply channel to ensure customers get what they want extends beyond the mill to distributors. Over the years they have developed strong ties to food service distributors Food Service of America and Sysco. It is important for distributors and the category representatives to understand the unique value of Shepherd's Grain flour. When they do, it becomes apparent to them that flour is no longer flour.

Marketing

Early on CPP realized the initial volume of sales they were looking at was not sufficient to push their product through the supply chain. Being entrepreneurial and adaptive, they changed tactics. They knew that convincing customers of its flour's superior quality and environmental credentials would be their entry point to the market. Therefore, CPP began a concerted effort to pull the product through the channel. A key for CPP in the process of winning over customers was winning over the hearts and minds of food ambassadors. These were the people that shared the same value system of local, sustainably produced food. These folks were also trend setters in their markets, which led more people to use and demand Shepherd's Grain flour. As more people asked for the product, more and more pressure was felt by distributors to take on the product.

As with their supply chain, CPP approached their customers with the desire to build partnerships. Shepherd's Grain producers have developed direct relationships with their buyers and final consumers in order to better serve them. This connection was not an easy one to accomplish. CPP was comprised of farmers who knew how to grow wheat, not marketers that understood how to communicate with consumers. In many respects, Fleming, Kupers and the other growers represented by the Shepherd's Grain brand had to learn a new vocabulary in order to communicate to consumers that do not understand farming. This new vocabulary included visuals as well. They would invite their customers out to the farms to see how the wheat was grown. Here, the customer physically saw the environmental attributes of direct seeding, which in turn converted him or her into a disciple of what Shepherd's Grain represents. Customers then become ambassadors for the brand, which led to greater consumer awareness and increased demand. These relationships also provided CPP with key insights into the people who use or consume their products.

The business' focus on marketing began winning over buyers. Currently their customer list includes the likes of Coeur d'Alene Resort, Spokane's Luna Restaurant, and Davenport Hotel. HearthBread BakeHouse based in Spokane, Washington, uses Shepherd's Grain to bake pastries for Starbucks and other stores. Cascade Baking, a Salem, Oregon, company, uses the flour in their artisan breads and baked goods. Washington State University, University of Idaho, and Gonzaga University dining services are also customers. Shepherd's Grain flour is also sold to the following distributors: Sysco, Food Services of America, Vistar, and Spokane Baking Supply.

Recently, they formed a co-branding partnership with Stone Buhr, headquartered in San Francisco, California. The two entities are co-branding an all purpose flour for sale in grocery stores throughout the Pacific Northwest. The Stone Buhr name was bought back from Unilever in 2002 and the company intended to go organic to reclaim its small, natural flour milling reputation. Meetings between Stone Buhr and Shepherd's Grain motivated Stone Buhr to pursue the local, eco-friendly differentiation strategy that is central to Shepherd's Grain. Shepherd's Grain wheat is sold in Stone Buhr's bag and both names appear on the label. The product is marketed in regular Northwest grocery stores as the first environmentally friendly, locally grown all purpose flour in the Northwest.

Pricing

With the product being finalized and the markets showing promise, CPP wrestled with pricing their product. CPP wants their farming methods to be sustainable, but they have to make this sustainable as a business also. Kupers has noted, "You can talk about sustainability all you like, but this still has to pay the bills." The spot market price was often below the cost of production and was subject to lots of volatility, both conditions making it challenging to produce wheat for a living. Added to the market conditions is the producer and buyer mentality. Every producer has sold at a peak, and every buyer has bought at a low point, and both believe they can repeat that constantly. It was important to CPP to develop a pricing mechanism that was transparent to both buyers and sellers, and that provided economic sustainability for all concerned parties. But if the cash price is not up for the task, what price could accomplish such a goal?

One idea considered early by CPP was to charge a premium over Chicago Mercantile Exchange wheat futures. Kupers was concerned with trying to explain to a customer what a premium was. He wondered how he would describe it in such a way that was transparent for all their partners along the supply channel. This thinking resulted in ditching the idea of a premium and the group adopted the idea of charging a price that would cover the cost of production and provide a reasonable profit margin for the farmers.

The first pass in building a price was to ask the producers their cost of production. This worked okay but a more consistent and true cost of production was needed. Again, CPP turned to Washington State University for help. This time they found Dr. Herbert Hinman, a farm management expert. Hinman helped CPP develop a true cost of production, one that includes depreciation and employee costs like health insurance (for more details please see WSU's website http:www.farm-mgmt.wsu.edu/). Specifically, the model incorporates a fair return on investment and profit for the farm producer. Hinman has commented that the model is the most extensive cost of production model he developed in his long career.

CPP producers were then asked to calculate their cost of production using the model and bring the number to the group. When based on a per bushel basis, the numbers were amazingly close to one another despite the huge variation in regional production yields. To make things even more equitable, CPP adopted an Olympic averaging model, throwing out the high and low and averaged what was left. The resulting number would be the FOB price the growers would receive for their wheat. This price is set twice a year and is the wheat price for six months.

From there, CPP adds a transportation fee to get the wheat to ADM, as well as a marketing and administration fee. The transportation fee amounts to an average of fifty cents per bushel. Approximately forty five cents per bushel is added for marketing and twenty five cents per bushel for administration expenses. If the FOB price for wheat was $7.50 per bushel, that would make marketing expenses 5.2% of sales and administrative expenses only 2.9% (see table of charges to the right). These figures do allow for a nominal wage to Kupers and Fleming for their management and marketing efforts, but that was

CHARGE	$ / bu	% of Sales
FOB Farm Gate	7.50	86.2%
Transportation	0.50	5.7%
Marketing	0.45	5.2%
Admin	0.25	2.9%
Total	8.70	

not the case for their first three years. They chose not to draw wages in those formative years.

The pricing model, because of its transparency and consistency, has won favor with producers as well as buyers. The general consensus is that in a good business model the business has a better chance of success if their costs and prices per unit remain constant, or at the very least are predictable. This is certainly the case for CPP producers and their supply chain partners.

THE GROWTH

In the process of getting starting and building the sales of Shepherd's Grain flour, Kupers, Fleming, and their partners in CPP, as well as their partners in the supply channel identified and overcame many obstacles. As CPP and its partners climbed the steep learning curve, they built a solid base of knowledge, and the unknowns became less frequent. Since the formation of CPP and launch of Shepherd's Grain brand, changes have been made. Notably, the management structure, marketing effort, and pricing model have been revisited.

Kupers and Fleming are the co-founders of CPP, and as such they are also the managing directors of CPP. As producers were added to the production team, they had the opportunity to become producer-owners of CPP by taking shares in the company. In 2008, the decision makers of the organization saw a need to change the management structure. They developed an operating agreement that created a nine-member Board of Management. The composition of the board includes three at-large positions, four producer/owner positions, and Fleming and Kupers as founders and managers. The move to the Board would hopefully allow for more inclusive and comprehensive discussions about the environment that Shepherd's Grain operates in today and will be facing in the future while maintaining the nimble bootstrap mentality that brought the company success in the beginning. The new Board is responsible for reviewing, recommending and acting on the marketing plan, mission statement, goals and growth strategies for the company. In addition, they will develop a succession plan for when Fleming and Kupers step down (which isn't in the projected future). Finally, they will be involved in financial management and development of policies and procedures. In summary, they hope the move will help them be as bold as they have been, but with a touch of balance.

Year	000's bu	Y/Y Increase (%)
2003	12	
2004	36	200%
2005	87	142%
2006	187	115%
2007	385	106%
2008	424	10%
2009	424	0%
2010*	424	0%

* projected figure

In addition to changes in the management structure, CPP saw a need to shift gears in their marketing and sales efforts. The trend of increasing demand for local food caused a sharp increase in Shepherd's Grain sales. Between 2003 and 2006, Shepherd's Grain sales increased from 12,000 bushels to just under 200,000 bushels – a 14.5 times increase. CPP has always been aggressive in their growth goals, and currently have the goal to reach four million bushels in the next five years. It is one thing to double sales at the 12,000 bushel mark; it is much more challenging at the 400,000 bushel level. In order to achieve this goal, CPP recognizes the need for more effort devoted to the task of marketing and sales. To that end, in 2008 CPP hired Debbie Denekas on a trial basis to focus on building sales in the Seattle metropolitan area by building relationships with food distributors. The trial was productive and resulted in Denekas getting a fulltime offer in 2009. CPP is looking forward to making greater inroads into that market with her efforts.

Another goal they have in their marketing and sales mentality is to move toward long term contracts with key customers. Currently, it is not a normal practice for the industry to have such agreements. In true relationship fashion, CPP sees this goal as a mutually beneficial activity. With a better understanding of their future demand, they can plan and manage for product flow. As for the customers, they would be ensuring product supply sufficient for what they needed during the contract period.

Finally, CPP experienced a challenge in 2007 and 2008 when their product was cheaper than the spot market. The market conditions during this time took many players in the industry by surprise. Before this time, CPP was priced well above the market. The result was a run on their wheat, which could have caused a problem for their valued customers. This case was certainly an exception to the rule. Their relationship with the ADM mill allowed them to stop additional sales and worked to ensure their key customers were fully supplied. After the markets settled down, CPP buyers joined the Board of Management to develop a mechanism to handle situations like this. The result was the creation of a volatility index. If the Portland wheat price 150 days out gets too far out of whack with Shepherd's Grain pricing, the index will kick in and the price for Shepherd's Grain will move with the market. Otherwise, the practice of setting their price twice a year remains intact.

THE NUTRIENTS

The story of CPP and Shepherd's Grain is one of ingenuity and perseverance. Two guys started down a path that required learning and adaptation with every turn. They are fond of saying they would have talked themselves out of the venture if they had stopped long enough to put a formal business plan together. They have learned by doing and identifying what was right after the fact. With a little bit of luck and lots of help, they have succeeded. Central to this success is their commitment to a value chain and the companies partnering with them. Part of the commitment is based on the values and vision of the founders – local, sustainable production. They were interested in building a market that was based on mutual trust and shared values. In doing so, they have found valuable partners, a resource, much like a needed nutrient for a plant, that they needed to in order to grow.

The producers of CPP have met many people who have opened doors for them and helped move them ahead. These people, who believed in the values that Shepherd's Grain represented, were found at every stage of the supply chain. The food activists turned ambassadors for Shepherd's Grain and opened up market and sales opportunities for their flour. The management at ADM's mill demonstrated futuristic thinking by being open to the idea of an identity preserved flour product. They were also willing to take a chance on a startup company without a proven record. In turn, the growth that Shepherd's Grain has experienced has opened up more support from ADM. In fact, they now sign annual contracts with CPP to be the sole miller of Shepherd's Grain flour. CPP has also found a partner in Stone Buhr that opened the consumer packaged goods market for them. CPP understands today that it isn't enough to foster these relationships; they need to be continually managed.

Trust is also a key to their grower relationships. CPP must trust that their producers are doing what they say they are. There is no oversight of the producers by CPP. One thought is if a producer is practicing direct-seeding then they have the right mindset to deliver. However, on a select few occasions it became clear that Shepherd’s Grain was not a good fit. For whatever reason, they didn’t fully buy into the concept, whether it was sustainability or pricing or something else. The experiences have taught them to look for the right minded people in the first place, those that see the sustainable angle and believe in the business model.

One of CPP’s initial goals was to move away from the commodity game and away from being price takers. By building such strong relationships, their focus has rarely been on price. One reason, according to Fleming, is that value chains are built on relationships and supply chains are built on pennies.

THE NEXT PLANTING

Columbia Plateau Producers is facing a dilemma of how and where to invest resources. How do they expand the geography of their markets without violating their values of sustainable production practices and local supply, and without hindering their expanded efforts in their current market? What region in the U.S. would be most welcoming to their business model? And would that region offer the greatest market potential for them? Where does the mindset of producers match a growing demand for local and “know-your-farmer” type products? Where do milling capacities and the willingness of millers fit? Would the transactions model they built in the Pacific Northwest fit in a new region?

These are but a few of the questions Fleming and Kupers asked themselves as they prepared their notes for the Board of Management meeting. They saw the potential of another market, but wondered if they could find the pieces of the puzzle, including a field of potential partners interested in building the necessary relationships.