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Case Study No. 4: Organically Grown Company

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Organically Grown Company®

ORGANICALLY GROWN COMPANY

Eugene and Portland, Oregon, and Kent, Washington

MISSION

The mission of Organically Grown Company (OGC) is “Promoting Health Through Organic Agriculture as a Leading Sustainable Organization.” Over their 25-year history that mission has also come to include a focus on overall sustainability in the food supply chain. Certified by Oregon Tilth in 1998, OGC was the nation’s first certified organic produce distributor; today 99% of what they sell is certified organic.

HISTORY

In 1978 a group of farmers in the Eugene, Oregon area formed a non-profit organization, the Organically Grown Cooperative. The cooperative bought supplies as a group, shared information, and offered production-related education. At the time, organic agriculture was in its infancy, inputs were expensive and hard to come by, and technical information was scarce, as the Land Grant universities and Cooperative Extension were providing little to no information on organic production.

The farmers quickly realized that it would make more sense to cooperate in marketing their crops than compete against each other, and that a lack of market coordination led to a glut in some crops and scarcity in others. The farmers also wanted to spend more of their time growing and less time marketing and keeping up with accounts receivable, as well as be less at the mercy of retailers.

The cooperative wrote a grant, hired a VISTA worker, and got busy learning how to build trust, reach agreements, write bylaws, and convert themselves into a full-fledged agricultural marketing cooperative. Although at the time, several of the farmers were living on communes and very cooperatively-oriented, an agricultural marketing cooperative required a much higher level of coordination.

With about a dozen farmers, the groups officially incorporated into an agricultural marketing cooperative in 1983. Two of the original farmers, David and Tom Lively, are still with OGC, although no longer farming. The farmers put up their bicycles, backpacks, and what other posses-



Bill Lakey with information on OGC’s Northwest-only LADYBUG brand and other products.

sions they had as collateral and received their first loan, which they used to buy a large cooler. Using their own trucks and one very used refrigerated truck, the cooperative began by distributing produce around the Eugene area and then up and down the Willamette Valley.

Because the growing season in Oregon ranges from six to seven months long and it was impractical to lay off employees and seasonally close their warehouse, the cooperative decided from the beginning to operate a year-round wholesaling business, buying product from warmer climates to augment their offerings. This was immediately controversial for some of the farmer-owners and, due to legal definitions, ultimately led to them having to change their business structure. Under federal law, the

The Innovative Business Models Case Study Series

Developed by the UCSC Center for Agroecology & Sustainable Food Systems, this series of case studies focuses on the social and environmental efforts of innovative U.S. food system businesses across different geographies, scales, legal structures, and points along the food supply chain. While these represent only a handful of the thousands of socially and environmentally responsible food businesses across the nation, they have many features that others can learn from in developing sustainable businesses that incorporate the triple bottom line of people, planet, and profits.

farmer-owners of an agricultural marketing cooperative must grow and supply at least 50% of sales. But apples from Washington, winter lettuce from Southern California, and the other crops brought in to round out the cooperative's product list were accounting for more than 50% of gross sales. In 1999 Organically Grown Cooperative became the Organically Grown Company, converting to an S-Corporation.

Although there has been considerable consolidation in the retail food markets, OGC was an early leader in their regional distribution sector and has remained in that position ever since. They have not needed to partner nor acquire competitors to become the nation's second-largest organic produce distribution company.

GEOGRAPHY/SCOPE

OGC began with a warehouse facility in Eugene, Oregon, then opened a Portland location. Once they started selling into Washington, OGC opened a facility in Kent, Washington, which handles Eastern Washington fruit and divides up big loads for multiple routes. Although still headquartered in Eugene, most of OGC's employees work in the Portland warehouse, moving approximately 80% of their produce volume. The company now has over 160 employees.

OGC buys produce from approximately 400 growers; 160 of them are located in the Northwest, with others in California and other parts of the country. They have a special Northwest-only brand called "LADYBUG" that provides 5–10% of their total sales and is supplied by approximately 36 growers. The LADYBUG brand provides discounted packaging, along with stickers, twist ties, and point of purchase marketing support for those growers who choose to sell through the regional brand.

While OGC is committed to Northwestern farmers and markets, their ambitions of seeing organic production take over agriculture might lead them to expand into other markets, such as Alaska, Canada, Idaho, and Montana.

PRODUCTS/SERVICES

Organically Grown Company has dabbled in a few non-produce items such as dairy and coffee, but their expertise lies in the complicated and fast-paced world of fresh produce distribution. They carry over 300 produce items including fruits, vegetables, and nuts, which vary to some extent throughout the year. The LADYBUG brand includes around 80 items. OGC sells produce to other wholesalers, retailers of all sizes, restaurants, food service, institutions, and some buying clubs. OGC buys produce from farmers and they also broker¹ it when farmers have a glut or hard time moving certain items.

FINANCING

The dozen or so farmers who started OGC as a cooperative pooled their meager personal funds and put up their possessions to get a loan from the Eugene-based Westend Fund, designed exclusively for other food-related cooperatives in the area. From this they purchased a cooler, their first truck, and hired the first marketing staff. By the fifth or sixth employee OGC finally hired a finance director who informed them that they were in debt.

¹Brokering means selling on consignment without a pre-defined order, while wholesaling means buying produce to fulfill a specific order.

After rapid growth, facilitated by little competition in organic produce distribution and double-digit growth in the overall organic food sector, OGC is profitable and out of debt. Current operations are primarily self-funded, with only a small amount of bank debt to buy back stock in the company. Although net profits are extremely thin (around 1.5–1.75%), OGC still manages to put reserves away each year and donate at least 2.5% of net profits to like-minded charities and causes annually.

In 2008 OGC provided a loan so that the bulk of their employees could purchase a portion of the S-Corp shares through an Employee Stock Ownership Program or ESOP. Seventeen percent of shares in the S-Corp are being purchased for eventual assignment to employees and more will be purchased over time, with the goal of the ESOP owning a significant portion of company shares. A minimum investment of \$5,000 in shares is required for new shareholders and no one person can own more than 1% of the business. Income from sales of shares has been a relatively minor source of financing for OGC's operational and capital expenditures, which has come mainly from profits and reserves.

MANAGEMENT/BUSINESS STRUCTURE

As an S-Corporation, Organically Grown Company has legal status similar to that of C-corporations, such as limited liability, avoidance of double taxation, and continuity of business in succession transfers. However, the company cannot have more than 100 shareholders and all shareholders have to be located in Oregon, where the business is registered.

OGC currently has 45 owners who own 83% of shares and an ESOP of 130 employees that owns 17% of shares (the ESOP is considered a single entity and therefore does not exceed the 100-shareholder rule). Shareholders, including the ESOP, vote for a board of directors, with their voting power equal to their ownership stake (one share = one vote). The board is made up of three farmers, three employees, and three community members. The board of directors hires and supervises the CEO (currently Josh Hinerfield). The board meets monthly and typically used consensus to make decisions. Board meeting minutes are written up for all shareholders to read.

In addition to the CEO, OGC has a management team that meets weekly and decisions are generally made as a group. All staff and shareholders are invited to an annual meeting at which finances are discussed, future plans unveiled, and awards and recognitions given at all levels. The ESOP also has its own committee, made up of eight employees elected by their peers. This committee meets regularly to advise Plan Trustees and organize education and activities for ESOP participants.

LABOR PRACTICES

OGC takes its labor practices as seriously as it takes its environmental initiatives. Employees at all levels are given opportunities to participate in decision making and take leadership roles if they volunteer to serve on various committees. Annual staff surveys regularly show that over 95% of staff identify with the OGC mission and feel that their work is more than just a job. Employee turnover is very low, something that OGC identified early on as a key to their success (and cost control).

Wages are highly competitive and all employees (even part-timers) receive health insurance, which includes alternative care

such as naturopathy and acupuncture. OGC matches employee contributions to a socially-responsible retirement plan, profits are shared when they are available, and all employees can build equity in the business itself through the ESOP.

In addition, a health and wellness committee develops programs and incentives for employees to take their health seriously. A safety committee helps educate and train employees to minimize workplace injuries. OGC employees can also learn about organic production and sustainability via annual workshops, field trips, and summits. Instead of making sustainability efforts extra work for staff, OGC is working with their human resources department to incorporate these tasks into job descriptions as well as offering rewards to staff when their efforts create positive change.

SOCIAL/COMMUNITY INITIATIVES

In 2008, OGC added another sustainability goal to the company's list of core values, which is to *build customer and broader community awareness and support for a healthy and sustainable food system*. They realized that without wider public education and engagement, an organic and sustainable food system would never become the dominant paradigm. They also realized that it will take an active citizenry, new public policy, and institutional change—along with responsible businesses—to right the ship.

Towards these ends, OGC organizes workshops, conferences, and field trips for their customers as well as their suppliers. OGC is also active in shaping public policy, such as pending food traceability and food safety legislation. They are working hard to make sure that smaller-scale farmers are not pushed out of the market due to burdensome record-keeping, nor that environmental stewardship is forsaken for food safety practices that put natural resources at risk.

To address farm labor conditions and fair pricing for farmers, OGC is facilitating a dialogue with the Agricultural Justice Project, which is launching a pilot certification program with some of OGC's growers. OGC is exploring the idea of moving all of their LADYBUG brand produce towards the social certification that AJP has created. They are also ensuring that there is a market for social certification by talking directly with buyers, such as food cooperatives that have a similar social justice vision. OGC spearheaded a similar fair labor effort with the organic bananas they sell, working with the GROW: Giving Resources & Opportunities to Workers program in Southern Mexico, which ensures that an extra .50 per box goes into a community fund supporting the people who grow and harvest the bananas. The program has generated over \$150,000 in contributions since its 2007 inception.

OGC has been the biggest donor by weight to Food for Lane County (site of their Eugene headquarters) and donates a considerable amount to the Oregon Food Bank, for combined donations of around 300,000 pounds per year. They are working to get fresh, organic produce into schools through creative means such as selling the #2 or small count apples to schools. However, it is a delicate balance to meet the schools' price point and ensure that the growers and their workers are paid adequately. OGC also donates produce to local schools when they have more than they can sell; for ex-

ample, in 2009 they moved quickly to donate 1,000 pounds of Oregon kiwi berries to Oregon and Washington public schools. Since 2008, OGC has been a partner with EcoTrust in their Farm to School Program.

OGC also gives away at least 2.5% of their net profits annually to sustainability-related efforts and charities. In 2008, despite the economic downturn, OGC donated 3.38% of its net profits.

ENVIRONMENTAL INITIATIVES

The environmental efforts of the Organically Grown Company are too numerous to mention, but can be found in detail in their annual sustainability report (www.organicgrown.com/pdfs/sustainability_report2008.pdf). Although always focused on increasing the market for organic food, OGC re-examined their entire business model after going through The Natural Step process (www.naturalstep.org). The Natural Step framework takes a systems approach to sustainability, helping organizations figure out what end vision they would like to achieve and then stepping back to see how to get there. From this, OGC created five long-term sustainability goals –

- Goal #1: Achieve carbon neutrality and eliminate fossil fuel use
- Goal #2: Eliminate solid waste and toxic substances
- Goal #3: Achieve on-farm sustainability and small/medium farm viability
- Goal #4: Foster a healthy and fulfilling workplace
- Goal #5: Build customer and broader community awareness and support for a healthy and sustainable food system

Under the guidance of OGC's Sustainability Manager Natalie Reitman-White, an annual process has been developed to move closer to those goals and engage and empower staff at the same time. Every year a sustainability steering committee made up of staff at different functional levels of the business meets regularly for six weeks. Using information gleaned from the previous year's sustainability report, this committee develops a list of potential projects for the year and then rates them in terms of feasibility, cost effectiveness, etc. The Management Team then votes on which projects to implement over the coming year. The steering committee disbands and gets busy implementing the various projects in their departments. The Management Team reviews key performance indicators monthly and posts them for all employees to see. They then do an annual sustainability audit, often with the help of an outside consultant, and write a report that they make public and send to customers.

Some of the projects that OGC is working on to reach their sustainability goals include –

Donating edible food, composting the inedibles, and recycling what they can in an effort to move toward “zero waste.” Wax-covered boxes are one of the hardest things to move away from in produce distribution, but OGC is piloting re-useable containers that are sanitized and re-used through a “pooling system.”

Targeting transportation innovations to reduce carbon emissions. From software that maximizes loads and makes

routes more efficient, to changing engine technologies to reduce emissions, to running on used vegetable oil in certain vehicles, to owning a hybrid-electric biodiesel refrigerated truck as part of their fleet, OGC is constantly exploring new options to make their transportation free of petrochemicals. Additionally, the electricity for all of the company's Eugene, Portland, and Kent facilities is petrochemical free, relying instead on wind power that they purchase on the grid.

Working to get toxins out of their activities, from replacing conventional vehicle lubricants with plant-based alternatives, to researching non-toxic refrigerants for their coolers, to using plant-based dyes in all their t-shirts and promotional gear.

Moving to paperless accounting, double-sided printing, and ink cartridge recycling. OGC also donates all of their used electronic equipment to an organization that refurbishes it for re-use.

Providing incentives for employees to take public transportation, bike, or walk to work. They have surveyed employees to understand average commute distances and are working on strategies that deal with the individual challenges of getting out of the car.

OGC has a 20- to 30-year goal to move beyond the "impossibles," those seemingly intransigent problems that most in the industry view as the status quo. They don't want to just "green" the industry, they want to transform the entire food system. It is not enough, in their eyes, to simply grow the produce organically but do everything else with the use of fossil fuels, toxins, excessive packaging, poor labor practices, etc. They are working to partner across the supply chain, lobby to shift policies and subsidies, and demonstrate the possibilities.

KEY CHALLENGES

As more and more organic consumers shop at farmers' markets, produce sales have declined somewhat in certain retail stores, especially natural food stores. Add to this the 10–15% decline in overall sales at natural food stores due to the weakened economy, and the phenomenal growth that OGC has seen since their humble beginnings has slowed. However, OGC is working with some larger supermarket chains that have expanded their organic produce sections, allowing OGC to meet their sales goal for the year (2009). The slower market has also allowed OGC to focus on more of the systems and administrative tasks that were neglected during years of 20% growth.

Another challenge that OGC leadership identifies—and which is a challenge for the entire food system—is how to truly pay for sustainability. They believe that sustainability in the food chain should not be solely supported by consumers, given that only about 5% of the population can afford the cost of a truly sustainable food system—factoring in fair wages, parity pricing for the farmer, switching to renewable energy, water-conserving technologies, improving soil health, re-usable packaging, etc.

Unlike many businesses that avoid politics, OGC has been active on many political fronts in its efforts to advance a sustainable food system, from pushing for a strong National Organic Program, preventing the spread of GMO crops around the Willamette Valley (an extremely important seed producing region that could be threatened by GMO contamination), testifying on behalf of organic and small-scale farmers with regards to proposed national food safety legislation, and pushing for stronger Farm Bill programs that shift more funding to conservation programs, and to fruit and vegetable production.

OGC has higher operational costs, in large part because they are internalizing many of the costs that other companies don't pay for, such as waste reduction and re-use, wind energy, paying for the health and well-being of their employees, etc. So far, their customers have remained fiercely loyal, principally due to the company's many commitments to sustainability.

CONCLUSIONS

The Organically Grown Company is working to bring the philosophy of organics into the entire way they do business. That philosophy is one of interdependence, of working with natural processes, of circular, non-linear thinking, of substituting non-renewable resources for renewable, non-toxic ones, of building health from the ground up.

They are also trying to be as ethical and transparent as possible while not being exclusionary or burning bridges that in the future must be crossed. Their business philosophy motto is "we understand that the growth of the organic food trade requires that the same values used to produce organic foods be used in conducting the business of selling them."

Although OGC has been determined and ambitious in their growth, they are also prioritizing sustainability, education, and mutually beneficial relationships along the way. While certain aspects of what they do cost more money, other aspects save them in the long run. The company's accounts have remained loyal (they have lost only 3–4 accounts over their 25-year history), they have low employee turnover, and their waste and electricity reduction efforts save money.

Borrowing a phrase from the founding chair of the National Organic Program, Michael Sligh, OGC likes to think of themselves as "organic and beyond," using organic as the foundation. They want nothing less than to change culture through agriculture.

FOR MORE INFORMATION on the Innovative Business Models Case Study Series, contact the UCSC Center for Agroecology & Sustainable Food Systems at 831.459-3240, or send email to casfs@ucsc.edu. You can learn more about CASFS at <http://casfs.ucsc.edu>.

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