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Innovative Business Models Case Study Series

Title

Case Study No. 3: Destiny Organics

Permalink

<https://escholarship.org/uc/item/0hx1h19v>

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Publication Date

2010-01-15



DESTINY ORGANICS

Forest Park, Georgia

MISSION

Destiny Organics' mission has five components: 1) Providing farm-to-table solutions for a wide range of clientele; 2) Educating retailers and consumers on the importance of local, sustainable and organic agriculture; 3) Promoting and supporting local, organic growers; 4) Bringing people and local organically grown produce closer together; and 5) Preserving our natural environment to guarantee quality of life for future generation.

HISTORY

Destiny Organics (DO) began as a conventional produce distributor for large retailers around Georgia and the Carolinas. Yet in less than a decade, the company has pioneered the expansion of organic products in the South, morphing into Georgia's and possibly the region's only certified organic distributor, with a territory that covers six states.

Two silent investors with years of produce experience and other existing distribution businesses teamed with general manager Dee Dee Digby to launch Destiny Produce in 2001. The company originally focused on providing fresh produce to food retailers in the South. With a location in the Georgia state-sponsored farmers' market terminal in Forest Park, just outside of Atlanta, they had access to a diversity of fresh produce in volume. When their store accounts started asking for organic items, Destiny Produce would add them to their availability list.

Over the years, more and more organic items were added to the list, along with locally and regionally grown produce. Before they knew it, the majority of their items were organic. In 2003, Destiny Organics' packing/distribution facility was certified organic by the National Organic Program of the USDA, a first for Georgia and the entire South (to date there are still only a handful of organically-certified distributors in the U.S.).

With their produce composition increasingly organic and local, many smaller businesses such as independent natural foods stores, food coops,



Destiny Organics showcasing their Georgia Producers and promoting their box program with samples of small, medium and large contents of the organic produce boxes they offer.

and buying clubs started working with Destiny. Over time, the bigger chain stores comprised less and less of Destiny's customer base as the smaller retailers became the major part of their business. These small retailers may not have the volume buying power of the large stores, but they have a very committed organic customer base. To better serve these stores (and add value to existing accounts), Destiny Produce began offering other organic, artisanal, and local foods such as milk, cheese, eggs, Fair Trade coffee, and more.

Serving these niche markets and numerous smaller producers required a different approach than working with larger outlets, one that is centered on building relationships and open communication, as well as more sophisticated marketing.

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.

Digby and her staff have embraced these changes and are now recognized as innovators in this type of distribution effort.

Early in 2009, Destiny Produce finally changed its name and entire image to Destiny Organics, reflecting their commitment to organic, sustainable, and humanely produced foods with a strong emphasis on local and regional products.

GEOGRAPHY/SCOPE

Destiny Organics started out serving clients in Georgia, as well as North and South Carolina. They have now expanded to serve Alabama, Florida, and Tennessee. The company has eight transportation routes radiating from their central facility just outside of Atlanta. In order to reduce the transportation burden for farmers selling to Destiny and to increase efficiencies, Destiny also does “backhauling,” picking up farmers’ produce on their way back from drops at retail stores.

Destiny Organics is a small company with 35 total employees, including management. They serve clients of all sizes—restaurants, resorts, institutions, natural foods co-ops, buying clubs, independent grocery stores, and large retail chains. Typically, DO is the primary or secondary supplier for the independent stores and third or fourth position supplier for larger customers.

Unlike most food service businesses that start with smaller accounts and move towards fewer but higher volume accounts, Destiny has done the opposite. Going from big accounts to small has allowed them to understand the full spectrum of the industry, differentiate themselves from competitors, and create a key link in the Southern regional food system by moving food from small- and mid-scale producers.

Although Destiny does not sign written contracts with their grower suppliers, they rely on verbal agreements based on years of relationship cultivation. They may move towards contracting in the future if that can better meet their needs and the needs of farmers (contracting can be an important risk management tool). Many of the farmers Destiny works with are featured on their website (17 are profiled right now) and they also have created a variety of point of purchase materials for stores and institutions to better educate their customers on the origins of their food. The majority of growers that sell through DO are mid-scale producers who can’t direct market all of their produce but are not large enough to do their own marketing and distribution. This aspect of Destiny Organics’ business model is important, as it is the mid-size growers who are disappearing most rapidly from the American farming landscape.

PRODUCTS/SERVICES

Destiny Organics carries a wide range of fruits and vegetables, from locally produced to internationally grown. While they emphasize seasonally appropriate offerings, their clients demand a wide selection of produce all year round; therefore, Destiny does purchase some items from other countries. Luckily, with their Southern territory’s long growing season, offering local and regionally grown produce is increasingly straightforward.

In addition to produce, the company now provides meat, dairy, eggs, juice, flour, coffee, sauces, seafood, granola, nuts,

baby food, tofu, and frozen foods. This diversification allows them to better serve existing accounts as well as add revenue.

Another unique venture of Destiny Organics is their organic box program. Unlike a farm-based CSA (community supported agriculture subscription program), DO’s box program uses fruits and vegetables from many different local and regional farms to mass assemble boxes. Instead of handling the subscriptions themselves, they have 10–12 independent coordinators who build their own customer bases. In return, the coordinators earn a commission on all the boxes they sell. Two of their coordinators have over 700 subscribers while the rest have fewer. Several have started with as few as ten subscribers and have seen their customer base grow by four times that number in six months. Destiny is the only produce distributor in the nation taking this approach, which might prove to be a way to take the CSA concept to scale and serve a more mainstream audience.

Destiny Organics has a full-scale re-packing facility within their warehouse, which is certified organic. The re-pack facility uses a crew of six to eight people who sort, grade, wash, and box produce as needed. This often involves splitting cases into smaller case sizes, which are more suitable for retail or food-service; banding organic produce at the request of a retailer; and bagging and/or tray packing to the customer’s specification. When a farm lacks appropriate packaging facilities and requests assistance, Destiny will pack a farm’s produce into boxes with the farm’s label. The re-pack facility is equipped with sinks, tables and a conveyor system.

FINANCING

Destiny was originally financed with the personal resources of two silent investors who leveraged their produce experience and other business investments to launch the company. The availability of space at the Georgia State Farmers’ Market complex provided DO with fairly low-cost infrastructure. Trucks were purchased slowly over time, financed by the profits of the business. They now have a truck fleet of seven diesel trucks, which operate partially on bio-diesel derived from chicken fat obtained from the Georgia poultry industry. They continue to rent the warehouse building, although the company uses more space now than when they first started, adding additional coolers and a freezer.

Destiny Organics has also been able to control costs through an extensive recycling program for all materials (including the wooden pallets) and composting food waste (see Environmental Initiatives, below).

Because Destiny Organics is a privately-held corporation, financial information is not public. However, they are a profitable and growing business.

MANAGEMENT/BUSINESS STRUCTURE

Destiny Organics is organized as a Limited Liability Company (LLC) with two silent owners. These owners have played a largely behind-the-scenes role and have hired Dee Dee Digby to serve as President of the company. As one of the company’s founders, Dee Dee has been with Destiny since its inception and continues to provide the guiding vision that moves Destiny forward.

An LLC structure was chosen because it offers limited personal liability for the owners and avoids double taxation. However, one challenge of the LLC model is that it doesn't easily allow for outside investment resources, to which some of their competitors have ready access.

Destiny operates with a small management team composed of the President, Dee Dee Digby, and two Vice Presidents of Operations, Mike Digby and Thai Tey. Although the rest of the staff does not participate in the management team, the company's small size means that communication between managers and staff occurs frequently, and there are few management layers or extensive hierarchies to negotiate. Decisions are made top-down and could stifle creativity to some extent, but the small size of the staff allows for employees to work at different roles in the organization, building their skills in many areas. Other than sales reports, financial documents are not shared with the non-management staff.

LABOR PRACTICES

Thanks to the company's size, Destiny Organics' employees get to wear a lot of hats. Some don't even have job titles, rather they function as jacks or jills of all trades. This makes for a unique work environment, although it may challenge those who aren't good multi-taskers. Since the company is so small, there is limited opportunity for upward movement within the business; however, the broad range of skills that employees learn on the job probably enhances their options should they choose to leave. Nonetheless, employee turnover is low.

Destiny Organics pays wages above industry standards and provides a generous benefits package. All staff members are eligible to receive a weekly box of organic produce at wholesale, which not only educates them about produce but also contributes to their health.

There are various degrees of staff buy-in to the whole concept of organics, fresh produce, and healthy food. Some still take plentiful smoke breaks and dine at McDonald's for lunch. Other employees are die-hard organic consumers. The leadership at Destiny Organics does not push organics on their staff, but rather works to educate employees about the quality and freshness that local and organic produce provide and offers them healthy food if they are interested. They have a diverse staff and are understanding of people's different needs and passions.

Destiny Organics has a strong relationship with various agencies and institutions within Clayton County, the Atlanta suburb where the company is based, and was awarded "Small Business of the Year 2008" by the Clayton County Chamber of Commerce. The company has offered a number of paid internships to students of Clayton State University—part of the University System of Georgia—who are studying supply chain management. Student interns have gained the unique perspective and real-world skills that have allowed them to pursue lucrative careers in the industry upon graduation.

SOCIAL/COMMUNITY INITIATIVES

Although the South was predominantly agrarian for much longer than most of the U.S., it has some of the high-



Destiny distributes organic crops grown by Relinda Walker of Walker Farms to customers in six states.

est rates of food insecurity and diet-related diseases in the nation. Rice, cotton, and peanuts, generally grown by larger-scale family farmers or corporations, make up most of the food currently produced there. Contract-grown poultry and pine tree production are two other major agricultural industries. Fruit and vegetable production and the use of organic techniques have been slower to take hold in the South than the rest of the country.

Other factors such as the significant loss of land by African-American farmers, intense urban sprawl and the accompanying farmland conversion, and limited access to more affluent markets have stymied the diversification of agriculture in the South. Although Destiny Organics cannot solve all of these problems, their entry into the market has created a viable link in the rebuilding of a healthier regional food system. Their emphasis on local and regional producers has also helped keep dollars circulating in their local communities.

Destiny Organics also contributes to its community by donating tons of produce every year to charity events, nonprofits, and occasionally to food banks. By bidding on a USDA-funded snack program, they are working to increase fruit and vegetable consumption by school-age children. This effort is especially important given the higher rates of obesity and type-2 diabetes in the South. In addition, Destiny Organics is now poised to become a key supplier to Decatur City Schools in metro Atlanta, for their new Farm-to-School program. DO has already provided food for two training workshops designed to re-train school cafeteria workers in a fresher approach to school food.

ENVIRONMENTAL INITIATIVES

Destiny Organics has created a strong market pull for organically produced foods. This in turn is helping farmers in Georgia and other Southern states increase their acreage under organic production. The 2007 USDA Ag Census found only 2,015 acres of certified organic land out of Georgia's 10.1 millions acres of farmland. However, thanks to Destiny Organics' efforts to create markets, along with outreach programs by groups such as Georgia Organics, there are now 52



certified organic growers in the state (up from only 10 in 2004) and 62 farmers' markets (up from 9 in 2004).

As DO moves into carrying other food products, they have sought out sources that carry other environmental attributes or animal welfare standards. For example, all of their animal products are hormone-free and free of non-therapeutic antibiotics. Many are from grass-fed or pasture-based operations. Their seafood is all wild caught, not farm raised. Additionally, all Destiny Organics coffee is certified organic, Fair Trade, and roasted by a Georgia company.

Destiny Organics has become a strong partner and member of Georgia Organics, a statewide membership organization working to integrate healthy, sustainable, and locally grown food into the lives of all Georgians. They are also active in the Green Foodservice Alliance, which works to reduce waste, water use, and electricity consumption in the food service industry.

While typical produce distributors generate a mountain of wax-covered cardboard, shrink wrap, beat-up pallets, and spoiled food each day, Destiny Organics' environmental efforts include an extensive recycling program that diverts approximately 98% of their packaging material away from the landfill. Even their well-worn wooden pallets get turned into wood mulch, which creates a chemical-free alternative for weed control. Destiny has also started composting any spoiled produce and trimmings—a significant effort for a produce distributor—and is the only company at the State Farmers' Market complex that composts fruit and vegetable waste. DO's shift to almost zero waste is part of their increasing commitment to the environment and a model for others in the industry.

Since transportation makes up so much of what Destiny Organics does, it is also an area in which they can have the largest positive environmental impact. DO now runs all of their diesel trucks on a biodiesel blend that contains 20% tallow from Georgia chicken farms.

KEY CHALLENGES

The worsening economy has had both positive and negative impacts on Destiny Organics' bottom line. While some of the smaller food stores and restaurants have closed, leaving DO with fewer accounts, more people are eating at home and grocers are seeing an upsurge in sales. There has been a slight decline in the momentous growth that organic products have seen over the past 10 years, yet there are more values-driven consumers than ever before. To increase sales to their existing clientele, Destiny Organics has diversified their product line, which also makes them more resilient to sales dips in certain food categories.

Another challenge is the increasing amount of competition for organic distribution in the South, which is evidence of the impact that Destiny Organics is having in the marketplace. However, the leadership

of Destiny believes their commitment to relationships with their suppliers as well as their customer service will maintain their current client base and lead to new accounts. And because of their pioneering relationship with Emory University, which plans to replace 75% of its food supply with local products by 2015, DO will be poised to capitalize on the expanding interest in a more sustainable food system now occurring on college campuses and at other institutions.

As they work with larger institutions, Destiny has had to increase their liability insurance coverage and create a more extensive food-safety plan (known as HACCP). While this has required more work and financial investment on their part, it is also opening up new opportunities.

Destiny's commitment to smaller-volume producers creates another logistical and financial hurdle, since it takes more time and effort to aggregate product and fill orders. This is often the one challenge that larger distributors simply don't have the patience for, but Destiny Organics makes it their mission to serve these smaller-scale farmers, ranchers, and other small food artisans.

CONCLUSIONS

During a time in which many of the key ingredients to a strong regional food system have all but disappeared, Destiny Organics has burst onto the scene to catalyze and support the growth of organic and sustainable food in the South. As CEO Digby describes, "Distribution is a critical link in the food chain. A sustainable food system depends on a reliable way to bring local foods to market." With their commitment to waste reduction, composting, alternative fuels, and working with small- and mid-scale organic producers, they are also setting a new standard for green in food distribution, one that goes well beyond some of the more superficial efforts that other competitors are selling.

Likewise, Destiny Organics is providing good, people-centered employment opportunities and increasingly giving back to their community. They are trying to generate a cultural shift around the importance of health, local diversified farms, and a more vibrant regional economy. While the South may be known for its unique and delicious foods, Destiny Organics is helping to make the South known for locally-produced, healthy, sustainable ingredients, high quality, and good taste.

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

Development of the Innovative Business Models Case Studies Series was supported by a grant from the Appleton Foundation and by U.S. Department of Agriculture award #2009-34424-19775. © 2010, CASFS, UC Santa Cruz.

