

PROCESSING ADDS VALUE AND PROFIT TO WISCONSIN'S ORGANIC INDUSTRY

How can Wisconsin capture more of the \$26.7 billion spent in the U.S. on organic food and beverages? Organic processing, which adds value to the organic milk, meat, produce and other commodities raised in Wisconsin, enables businesses to capture a bigger share of consumer spending on organic food.

In the spring of 2011, the Wisconsin Department of Agriculture, Trade and Consumer Protection informally surveyed 30 Wisconsin companies processing organic products. Nearly half of these companies were dairy processors. Other types of processed organic products represented in the survey included produce, meat and poultry, beverages, ingredients such as spices and seasonings, grain, hay and forage.

Seventeen of these companies produce products under their own label; of these, eight also provide contract processing for other companies. The remaining 13 companies only offer contract organic processing and do not have their own organic labels.

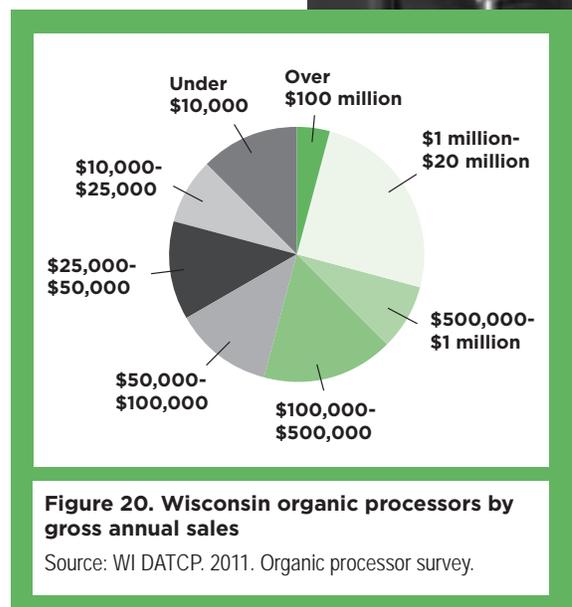
Gross annual income from organic sales ranged from over \$100 million to under \$10,000 among the 24 companies providing income estimates. Figure 20 provides a breakdown of these companies' gross income from organic sales.

Fourteen of the 30 companies started selling organic products before the initiation of the USDA National Organic Program in 2002. Of those well-established companies, 11 reported growth in organic sales in the last three years.

The picture was not as rosy for newer companies. Among the 12 companies established since 2002, five reported growth, three reported no change and three reported decreases in organic sales. Only one company launched since 2008 reported growth in organic sales.

Despite the challenges of these economically uncertain times, nineteen of the thirty companies expect growth in coming years, regardless of their current situation.

In order to better understand the challenges and opportunities faced by organic processors in Wisconsin, the UW-Madison Center for Integrated Agricultural Systems interviewed two companies that capture some of the diversity of this industry. Hay River Pumpkin Seed Oil is a five year-old business focused exclusively on one high-end, organic product. Cedar Grove Cheese is a well-established dairy processor that creates a wide range of organic and specialty cheeses for its own label and for other businesses. Cedar Grove has been selling organic cheese for 16 years.



Hay River Pumpkin Seed Oil: Prairie Farm, Wisconsin

Hay River Pumpkin Seed Oil is a small business with big aspirations. The makers of “America’s First Pumpkin Seed Oil” not only want to produce a top-quality, organic product for their customers, they also aim to create good-paying jobs and enrich small family farms in rural, western Wisconsin.

Ken Seguine and his partner, Jay Gilbertson, were living in the Twin Cities when they purchased land in Prairie Farm, Wisconsin, in 2001. After hearing Mark Mueller of Botanic Oil Innovations, a specialty oil processor in Spooner, give a presentation on the viability of unique oil seed crops in the Upper Midwest, Seguine and Gilbertson were inspired to investigate the viability of starting a pumpkin seed oil business on their farm.

Austrians have raised pumpkins as an oilseed crop for more than three centuries. In Austria and other parts of Europe, pumpkin seed oil is widely used in salads, vinaigrettes and marinades. In the U.S., most pumpkin seed oil is consumed as an encapsulated dietary supplement. Seguine aims to change that, and appears to be succeeding.

Hay River regularly sells out of their limited, annual production, and demand for their product exceeds what they can supply at this point.

“I’ve worked in the natural products industry my whole life,” says Seguine, “and this is the easiest sell ever.”

Pumpkin varieties raised for oil production are not the same as those grown for jack-o-lanterns and pies. Seguine and Gilbertson raise naked seeded pumpkins. The seeds of these varieties don’t have a tough outer coat, making them easier to press than ordinary pumpkin seeds.

In addition to growing these pumpkins on their own land, Seguine and Gilbertson contract with three local, organic farms, each of which grows a few acres of pumpkins for the oil seed company. Hay River provides these farms with greenhouse-raised seedlings, and harvests the pumpkins come fall. Raising pumpkins on several farms helps them manage production risks. “If pests or weather get the best of one field, we’ll have another,” says Seguine.

After a few years of harvesting pumpkin seeds by hand, in 2010 Seguine and Gilbertson invested in custom harvesting equipment that crushes the pumpkins and separates the seeds from the flesh. The equipment has turned out to be much too slow, especially in years where cold weather sets in early. In the future, they hope to invest in more efficient harvesting equipment from Europe.

Hay River hires eight part-time employees during the three- to five-week harvest season, and is committed to paying wages above the going rate for agricultural work. “One of our dreams and visions is to create sustainable jobs,” says Seguine.

After harvest, the seeds are washed, dried and bagged. They are transported to Botanic Oil Innovations in Spooner, where they are lightly roasted. The oil is

then extruded through a cold-press system. Botanic Oil Innovations bottles the oil and returns it to Seguine and Gilbertson.

Botanic Oil Innovations, which helped inspire the creation of Hay River Pumpkin Seed Oil, is now a key part of its production process. “It may not have been possible for us to do this without Botanic Oil Innovations,” says Seguine. “The legal and regulatory requirements of running a processing plant would have been a steep learning curve for a small startup.”



Hay River team

Contracting with other businesses for processing is an effective way for new businesses to minimize debt. Organic Valley followed a similar startup strategy and, despite its enormous growth, now owns just one processing facility in Cashton.

Seguine and Gilbertson distribute their product through specialty stores in the Upper Midwest and through mail order via their website (hayriver.net). Hay River Pumpkin Seed Oil is available in most Wisconsin cities.

Their main competition is imported, European pumpkin seed oils. Their only domestic competitor is another regional company, based out of New York, selling a variety of oils derived from squash seeds. Seguine welcomes this competition. He believes that, at this stage of market development for their product, competition helps increase overall market share for everyone.

Hay River Pumpkin Seed Oil has always been certified organic. Seguine and Gilbertson are committed to organic production because they believe it is the right thing to do, and also because it is vitally important to their marketing. “When people who don’t know us are buying our product, the USDA organic seal is a label the consumer can trust,” says Seguine.

Hay River’s marketing message and label focus on two key features of their product: organic and Wisconsin. Seguine emphasizes Wisconsin not only for local marketing purposes, but also because he believes that national customers associate our state with quality. “Wisconsin sells,” he says. “We have a wonderful reputation within the United States. People associate purity, quality, truthfulness and other good attributes with Wisconsin.”

Because they sell limited quantities of a high-end product, Hay River’s business was not affected by the economic downturn. “In fact, we grew during the downturn,” says Seguine. “Consumers who can afford our oil have the means and desire to support what we’re doing.” Seguine acknowledges that, as their business grows and their price point drops, a future downturn could affect their sales.

In coming years, Seguine anticipates growth in the domestic market for specialty oils: “These types of oils, with lots of omega-3s and carotenoids, will become a solid base of established nutrition and delicious eating over the next ten to twenty years.”

Cedar Grove Cheese: Plain, Wisconsin

Bob Wills and his wife, Beth Nachreiner, purchased Cedar Grove Cheese from Beth's parents in 1989. After a few years of producing commodity Cheddar, they decided to focus their efforts on specialty cheese. They were the first U.S. processor to introduce rBGH-free cheese in 1993, and they launched their organic cheese line in 1996. Cedar Grove also processes kosher and artisanal cheeses, and manufactures organic sweet whey powder.

Wills got into the organic processing business for both practical and philosophical reasons. It was relatively easy and affordable for Cedar Grove to add organic cheese to its product offerings. Wills already had the infrastructure in place for organic processing, although he needed to make changes to some of his pest management and recordkeeping practices. He found that his customers understood organic more easily than rBGH-free.

Philosophically, Wills is committed to running a sustainable operation. Organic production is one way for him to make a long-term commitment to the environmental and economic health of his operation, the 20 organic dairy farms that supply him with milk and the rural communities that benefit from his business. In addition to supporting his organic milk suppliers, Wills has improved the energy efficiency of his plant through upgrades to lighting and refrigeration.

Wills naturally cleans wastewater from the plant using a biological treatment system, or "living machine." In this system, bacteria and wetland plants remove soap, caustic cleaners, cheese particles, milk and whey from Cedar Grove's wastewater, leaving the water clean enough to discharge into Honey Creek.

In order to grow and sustain his business, Wills focuses on customer service rather than marketing. He offers his contract customers flexibility in terms of adjusting recipes and ingredients to meet their unique needs. He also maintains a wide diversity of customers. "We try to maintain balance and have a rule that no one gets over 15 percent of our product," he says.

Wills observes that his organic market is not as stable as some of his other markets in terms of consistent demand. When the economy went sour in 2007-08, demand for his organic cheese plummeted. At that time, some of his customers contracting with him for organic cheese production switched to "natural" cheese, in order to cope with faltering demand for their organic products. The market for organic cheese has turned around over the past two years, and Wills reports that his organic sales are better now than they were before the downturn.

Not all organic dairy processors weathered the downturn this well. "Many companies getting into organic dairy have backed out or failed over the past three to four years," says Wills. In 2011, there were 33 processors with organic

dairy processing capacity in Wisconsin, down 54 percent from 72 organic dairy processors in 2010.²⁹

Wills feels that, in the organic cheese marketplace, he only faces competition from two other Wisconsin businesses. He faces national competition from organic cheese producers in California who, in his words, “...tend to seriously undercut the market.”

Wills taps into the growing demand for local food by emphasizing Wisconsin on his Cedar Grove label, which he says provides a retail advantage. “I’m not sure if it is worth lots of money, but people associate Wisconsin with quality.”

As for challenges faced by organic processors, Wills is concerned about “near organic” products encroaching on the organic market. These “natural” foods lack certification to back up the claims on their labels, sometimes bear labels that are nearly identical to organic foods produced by the same processor, and are often placed on grocery store shelves with organic products. Wills feels that this confuses customers and can leave them disillusioned with, and distrustful of, all kinds of product claims, including organic.

Wills is uncertain whether the state should take an active role in supporting organic processors. He appreciates the role of Wisconsin’s Organic Advisory Council in providing the organic industry with a place to provide input into policy decisions and voice their concerns. But, at a time when state resources are extremely limited, he feels that there are more important needs than helping organic processors: “I’d rather see them help hungry people than businesses.”

Overall, Wills is optimistic about the future strength of Wisconsin’s organic dairy industry. But, the success of this industry depends on the supply of organic milk, which is currently tight across the U.S. Because of good prices for conventional milk and the high cost of organic feed grain, Wills doesn’t see a lot of dairy farmers considering the switch to organic right now, and some organic farmers are switching to conventional production. “If raw material availability doesn’t improve,” says Wills, “short supply could constrain future growth.”



Bob Wills

²⁹National Organic Program data reported by the Wisconsin Department of Agriculture, Trade and Consumer Protection. Laura Paine, personal communication, 12/22/11.