THE DIGNITY DEAL
INNOVATIONS IN VALUE CHAIN INFRASTRUCTURE
OR
THE WAY TO A BETTER TOMATO

BY MICHAEL ROZYNE

NGFN Cluster Call
August 20, 2009, 3:30 PM
Strawberry Harvest
Ward’s Berry Farm
Sharon, Massachusetts
Lettuce, Pleasant Valley Gardens
Methuen, MA
View from the top: apple trees, Clark Brothers Orchard, Ashfield, MA
John Lyman with Michael Rozyne
Lyman Orchard, Middlefield, Connecticut
“Michael, my job is to imitate California; same varieties, same box, same pack. And then deliver it for a couple bucks less. It’s June. Sorry, I don’t have time to talk.”

- Richard Bonanno,
  Pleasant Valley Gardens,
  Methuen, MA

- 3rd generation vegetable grower
- 70 years selling lettuce, peppers, squash, etc.
- PhD in weed science

• 90’s: $8.50/ case for 24 heads lettuce
• Canada: $7-8/ case
• labor + 80%, box + 50%, truck/fuel +100%
Welcome to Red Tomato

(A note: the pace of the presentation is fast, but there is time for Q&A at the end.)

- Michael Rozyne
  - India, biology/ag school, farm worker, food co-ops, EE

- Red Tomato
  - A nonprofit, coordinating a network of 40 regional fruit and vegetable growers orchestrating their supply into supermarkets from Boston to New York City
  - Non-asset-based marketers (no handling)
The Local Food Revolution

- Unprecedented public attention on local food, health and food
  
  *From the Hartman Group’s new data on thinking local:*
  
  - Local is part of the redefinition of quality
  - Grocery stores and farmer’s markets are primary channels of purchase for local products
  - Local’s rising popularity in the media

- Red Tomato’s piece of the greater work: *Wholesale supermarket channels*
The Challenge

Can Red Tomato …

- Build a model of a regional value (supply) chain that satisfies farmers, consumers, and buyers all at once
- And establish brand awareness and loyalty among consumers in Northeast supermarkets
Where do you frequently purchase locally produced products?

- From a grocery store: 62%
- From a farmers’ market: 61%
- From a farm stand: 44%
- Directly from the producer (farmer or crafts person): 28%
- From a health food store: 20%
- From a local super store (e.g. Target, Wal-Mart): 19%
- From a club or warehouse store (e.g. Costco, Sam’s Club): 8%
- From a convenience store: 7%
- From my local drug store: 5%
- Through a local CSA (community supported agriculture): 3%
- Online from the Internet: 3%

Grocery Stores and Farmer’s Markets are Primary Channels of Purchase for Local Products  Hartman GROUP, July 2009; Source: Pulse Report: Buying Local from a Consumer Perspective, Total Sample (n = 796)
Local is Part of the Redefinition of Quality

Quality exemplifies how consumers view local products:

- **Fresh**: Ripe, hasn’t traveled very far. Local products are usually in the fresh departments (i.e. perishable, perimeter store products)

- **Authentic**: Farmer’s Markets, food with a face, direct from the producer

- **Real**: Handmade production, not mass produced, specific varietals

- **Nutritionally dense**: good food value in terms of nutrition, “alive” = potency of vitamins and all the “good stuff” from nature

- Consumers are willing to **pay more** for products that are perceived to be of higher quality

- **Local is a cue** to higher quality in today’s changing food culture
Local’s Rising Popularity in the Media from Hartman GROUP, July 2009

Number of articles in which terms appear in magazines, academic journals, books, newspapers, multimedia sources, 1998-2008. Source: Gale Media One File, search of 69 million records.
There’s a Hole in The Middle

- Dramatic, steady loss of farms in the middle, with wholesale capacity
- Picture the middle of the distribution system as the BOTTLENECK of an hourglass. Control lies at the bottleneck.
Red Tomato in the Middle

- Operating at the bottleneck
  - Middle “men” get a bad rap (often deserved)

- Mission
  - Connecting farmers and consumers through marketing, trade, and education, and through the passionate belief that a family farm, locally-grown, ecological, fair trade food system is the way to a better world and a better tomato.
Who We Are and What We Do

- Cultural translator
  - farmers, buyers, funders, local food movement
- 501(c)(3) hybrid nonprofit business; marketers and marketing coaches
- Not a co-op - tons of cooperation
- Day-to-day - we develop product lines and packaging, brand, sell, finance, food safety, insure, take and fulfill orders, manage logistics
- Regional approach—it takes a region...
We Differentiate Products (decommodify)

- Locally-grown
- Ecologically-grown
- Fair trade
- Intrinsic product
- Aggregation, consolidation
- Brand
- Storytelling, promotion
Locally-grown: farm identity preservation and promotion
Ecologically-grown: organic and advanced IPM

Eco Apple ½-peck tote bag from Lyman Orchard, Middlefield, Connecticut
Picking apples at Truncali Orchard, Marlboro, NY

Fair trade: farm worker well-being and transparency
Intrinsic product: packaging, pack, grade, and variety
Intrinsic product: packaging, pack, grade, and variety
Aggregation and consolidation
Brand unifies products and ideas
Storytelling and Promotion

www.redtomato.org
An Undignified Deal

- Many produce transactions leave the farmer feeling underpaid, undervalued, misunderstood, left out, uninformed, and/or sometimes cheated

- “Deal” could mean: a single transaction, or a stream of transactions that comprise the season-long flow of a product over weeks or months
Characteristics of the Undignified Deal

- Large distance between grower and consumer (in space and time)
- No feedback loops between consumer/farmer; none or few between buyer/farmer (*Silence = all is well?*)
- Risk shared disproportionately
- Remainder pricing; growers takes what’s left
- Externalities (pollution, public health, farm workers, etc.) not part of the conversation; not reflected in the cost
- Farmer is not at the table for strategy and price making
The Undignified Result

Ignorance, lower product quality, unreal costs, mistrust, price becomes driver, farm loss, control at the bottleneck
The Dignity Deal
Not a formula, rather a process—our way of doing business

- Based on values
  - Fairness, Transparency, Shared risks and rewards, Triple bottom line accountability, (Economics, Social, Ecological)

- Baseline
  - Striving for freshness and flavor through continuous improvement

- Origins of dignity pricing
  - Began with costs of production + reinvestment and fair/limited profit
  - Unrealistic, so moved on to the dignity price
Characteristics of the Dignity Deal

- Close the distance between grower and consumer
- Farm identity preserved
- Feedback loops
  - Constant communication
  - Continuous improvement
- Risk sharing
  - Buyer commitment
  - Advance planning
- Dignity pricing
  - Farmer is at the table for strategy and price making
- Externalities are part of the conversation
Why would a Buyer do this?

- Better quality, fresher products
- Have what consumers want
  - Right now, locally grown
- Improve corporate identity
  - win customer loyalty
- Predictability
  - some price protection from spikes, disasters
- Relationships
  - Right thing to do
- Externalities are part of the conversation
## Sample Product

Romaine Hearts  
(12 x 22oz bags)

<table>
<thead>
<tr>
<th>Source</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grower</td>
<td>$19</td>
</tr>
<tr>
<td>Truck</td>
<td>$ 1</td>
</tr>
<tr>
<td>Red Tomato</td>
<td>$ 3</td>
</tr>
<tr>
<td>Customer</td>
<td>$23</td>
</tr>
<tr>
<td>Consumer</td>
<td>$2.99 - 3.99/bag (or $1.92/bag)</td>
</tr>
</tbody>
</table>

## 2008 Balance Sheet

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inc from sales</td>
<td>$340</td>
</tr>
<tr>
<td>Grants, fees</td>
<td>$650</td>
</tr>
<tr>
<td>Total income</td>
<td>$990</td>
</tr>
<tr>
<td>Payroll</td>
<td>$716</td>
</tr>
<tr>
<td>Other expenses</td>
<td>$172</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$888</td>
</tr>
<tr>
<td>Surplus</td>
<td>$102</td>
</tr>
<tr>
<td>Less debt/interest</td>
<td>($50)</td>
</tr>
</tbody>
</table>
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