

**Statement Submitted to the
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Introduction: Michigan's Opportunity in Processing for Regional Markets

Michigan is a food-processing powerhouse compared to many states. We are home to household brand names like Kellogg, Gerber, and Eden Foods, and we have extensive processing capacity across our major commodities, from cherries, apples, and sugar beets to dry beans and dairy.

Also powerful, but often overlooked, however, are literally *hundreds* of other companies among Michigan's more than 2,200 food and agricultural processing plants.¹ They are the old Polish sausage makers, the new artisan bakers, specialty cheese makers, and everyday smaller processing facilities that serve the state's broad and diverse range of farm and food entrepreneurs.

Michigan ignores these entrepreneurs at its economic peril: the future includes important roles for these smaller, regionally-focused processors and their communities. Markets are demanding more product variety, regional identity, and customized services. Michigan's smaller scale processors, both old and new, are in prime position to help the state's farm and food entrepreneurs supply this growing demand. They have the flexibility and the specialty orientation needed to respond to new tastes while working with a diverse range of farmers and food buyers.

But Michigan must tend to these smaller scale food and agricultural processing opportunities if existing ones are to grow and new ones are to emerge. The necessary tasks of updating existing plants, developing business plans and building connections among smaller-scale food and agricultural businesses may not be headline news material; but they amount to the kind of "economic gardening" that Michigan Governor Rick Snyder, among others, knows will grow jobs, investment, and prosperity across the state.

By supporting these entrepreneurs in a more committed and comprehensive way, the MSU Strategic Marketing Institute projects that Michigan could increase the rate of agri-food startup successes² to a projected 851 per year and the state could generate 23,020 direct and indirect jobs per year as a result.³ The report notes that nearly half of the jobs could

¹ Michigan Food and Agricultural System Profiles, produced in 2009 at the Michigan Department of Agriculture and Rural Development. Available online at http://www.michigan.gov/documents/mda/Michigan_Food_System_Profile_292926_7.pdf

² "Startup success" here refers to the U.S. Census Bureau term "establishment births," which are establishments that have zero employment in year t and positive employment in the first quarter of year t+1.

³ Peterson, H.C., Knudson, W.A., Abate, G. (2006) "The Economic Impact and Potential of Michigan's Agri-Food System, Strategic Marketing Institute Working Paper." The Product Center at Michigan State University, No. 1-1606, January.

come through relatively small capital investments in small businesses. The return on investment is remarkably high for small-scale ventures, representing 90 percent of the venture establishments that the report projects is possible with increased state commitment and support.

When direct and indirect effects are included, the small ventures would generate one job for every \$5,714 of capital investment; whereas the large scale agri-food businesses analyzed would generate one job for every \$59,537 of capital investment. Furthermore, it's important to note that small businesses do not necessarily remain small over their lifespan; many may start small but grow to become a significant employer in their community.

Feature Example: The Market Niche of Mid-Tier Processing

One example of a small processor that has grown substantially is Byron Center Meats near Grand Rapids, a 65-year-old family company that opted to reinvest and expand, rather than close down, after a fire in 2000. Thanks to the accidental opportunity to update its facilities, Byron Center Meats has been able to keep up with growth in demand for high quality meats, including the increasing demand for local products.

The company has more than doubled in size since the fire, to 40 employees and well over \$8 million in sales. A key component of that growth has been Byron Center Meats' services to area livestock producers who need access to federally inspected processing facilities in order to sell retail cuts to restaurants, grocery stores and at farmers' markets. Over the last two years, this segment of Byron Center Meats' business has grown nearly 10 percent - the reason being Byron Center Meats' size and flexibility.

With capacity to process 15 head of beef cattle per day, Byron Center Meats fits into a size category that is much needed but difficult to find. "Bigger processors won't take 10 head of cattle, and other plants can't handle 10 head," said Business Development Manager Mike DeVries. "We're just right; not too small and not too big."

In addition, Byron Center Meats is willing and able to help livestock producers build their own brands and markets. The company allows for private labeling of meats and provides the differentiated processing and packaging necessary.

"We actually encourage people to self-brand their products," says DeVries of the win-win relationships the company builds with its livestock producer customers. These relationships include meeting with producers and providing information and tools they need to build their brands and businesses in the emerging market for locally produced, identity-preserved meats.

Byron Center Meats' success and services illustrate the low-cost, high-return economic development potential Michigan has in the small- and mid-scale food and farm business sector.

According to the previously mentioned 2006 report from Michigan State University's Strategic Marketing Institute, Michigan has the potential to reduce its unemployment rate by almost 1.5 percent over three years by committing to a comprehensive support system for agri-food businesses. Ninety-seven percent of those jobs would come from small- and mid-scale startups like the livestock producers and meat product makers that benefit from Byron Center Meats' size and flexibility.

Such a system of support does not require costly incentives but rather more attention and follow-through on the business development needs of agri-food entrepreneurs. One example is the need that startup livestock operations, sausage makers, and local food distributors have for "right-size" processors like Byron Center Meats. It's an example of how Michigan's smaller scale processors are in position to provide needed pathways, or market infrastructure, between supply and demand for regional, differentiated food products.

Michigan should help indentify locations for similar mid-tier meat processors in other areas of the state in order to open up new market opportunities for more livestock producers. Michigan should also help identify the mid-tier processing needs of other agriculture sectors.

Other Promising Examples in Michigan

❖ The Rise of Michigan Artisanal Cheese

A growing number of Michigan farmers are creating small batch cheeses, made from the milk of cows, goats or sheep. The market for their artisan cheeses is large enough that many Michigan cheese makers can't keep up with the demand.⁴ Yet MDA rules and regulations are written for large cheese processors, and small-scale dairy processing equipment is expensive and hard to find.⁵

The recently formed Michigan Cheese Makers Cooperative, with 11 members, including several that are nationally recognized, has organized to promote and market Michigan-made cheeses.⁶ The group works in conjunction with, and complements the growing culinary tourism and winery industries in Michigan.

Michigan should support the rise of the emerging artisan cheese sector by ensuring scale-sensitive regulations and encouraging state-sponsored technical centers to provide their expertise and business development resources to this sector.

❖ New Place-Based Brands and Products

Local personality and flavor are 21st century selling points for all sorts of products, from food to clothes to specialized equipment.⁷ "Food business districts" can bring entrepreneurs together to develop new place-based products and brands, and local business-to-business connections.

⁴ Borden, J. (2009) "Cheese Artisans Renew an Age-Old Craft in Michigan." *Kalamazoo Gazette*, June 15.

⁵ Moser, L. (2009) "Cheese Maker Blazes New Trail." *Michigan Farmer*, February issue.

⁶ Michigan Cheese Makers Cooperative Web site. Home page. <http://www.greatlakesgreatcheese.com/>

⁷ Arieff, A. (2011) "The Future of Manufacturing is Local." *The New York Times*, March 27.

One example is People's Pierogi Collective, which has grown in one year from a startup hot food cart at Detroit's Eastern Market to contracting with all five Whole Foods stores in Michigan and requests to franchise nationwide. Founder Kimberly Stricker is keeping the franchise potential in mind as she ramps up her new business to a projected 12 employees later this year, producing pierogis (filled dumplings) for more retail outlets and for selling fresh and frozen pierogis from carts at farmers markets and other locations.

The Detroit home of People's Pierogi Collective is key, for both product and brand development:

- Friends, neighbors, and customers think up unique pierogi fillings like peanut-butter-and-jelly and peach-cobbler that distinguish the company and its products (the "people's" part of the brand).
- Eastern Market actively helped Stricker build the business. Staff came up with the idea of a custom hot food cart, which a small manufacturer in nearby Milford, Superb Fabricating, now makes. Eastern Market also helps Stricker source local ingredients for the pierogis, which she aims to source entirely from Michigan.
- The MSU Product Center provided packaging design and business coaching.
- SHAR Inc. (Self Help Addiction Recovery), a Detroit non-profit, is helping Stricker ramp up production with a flexible ex-offender workforce and the lease of commercial kitchen space in one of the closed Detroit Public School buildings that SHAR is renovating into low-cost food business development space. Through their Recovery Park project, SHAR is also working towards developing a market garden at Eastern Market that will supply People's Pierogi Collective.

Michigan should establish and encourage "food business districts," such as Eastern Market, to provide affordable and collaborative space for entrepreneurs to develop their products and businesses, including new enterprises that will emerge from common needs, such as distribution. Food business districts also can serve as hubs of information and services, such as business coaching, and of collaboration and coordination, such as sourcing from local farms and other suppliers, like equipment fabricators.

❖ Michigan Manufacturing Meets Small Farm Challenges

Stonehedge Fiber Mill in East Jordan is a small farm-based enterprise doing big international business thanks to the manufacturing industry background and skills of founders Deb and Chuck McDermott. Rather than practically give away wool from the farm's sheep, the McDermotts decided to process and sell it on their own. That's when they discovered a huge gap in smaller scale commercial wool processing equipment available to farmers. Such gaps in smaller scale commercial equipment for farms and food businesses exist in many sectors.

The McDermotts decided in 1998 to design and build their own wool mill. Today they sell their wool mill equipment across the country and around the world. The McDermott's design the mills, and Northwest Fabrication, a small family-owned business in East Jordan, makes them. Half of Northwest Fabrication's business is now dedicated to this Stonehedge Fiber Mill business. The McDermott's employ 12 people at their own fiber mill, which processes some 2,000 pounds of raw fiber each month from customers throughout the U.S. and another 2,000 pounds for their own Shepherd's Wool brand of worsted yarn.

Michigan should encourage M-Tec and other manufacturing-oriented business centers to identify and address the smaller scale equipment and related needs of food and farm entrepreneurs, such as “process engineering,” which addresses the efficient and effective flow of materials and products through processing. Attention to such needs among smaller food and farm businesses can result in new processing equipment and products for sale nationally and internationally in addition to solving problems for individual enterprises in Michigan.

❖ Farmers and Processors Renovate for Local Tastes

To meet demand for food from nearby farms, some smaller scale businesses and groups of farmers are renovating facilities to provide the scale of food and farm processing needed. To support their investments and help build markets, local and state economic development authorities can assist with financing, marketing, and other needs.

Farmers near Bear Lake in Manistee County, for example, are preparing to retrofit an old food processing facility for the new use of freezing fruits and vegetables for sales to local schools and other buyers. Nearby Triple D Orchards, a small processing plant in Empire, Leelanau County, has invested \$500,000 in an 8,500 square foot cold-pack facility designed to serve the growing niche of smaller scale companies.

With the right attention and incentives, the Bear Lake facility could anchor a regional food hub that would attract related retail, distribution, and packaging businesses. Such hubs could also collaborate with potential “spokes,” like Triple D Orchards, for additional services. In addition, a statewide effort to help such entrepreneurs connect and communicate could help build these businesses by helping other entrepreneurs find them.

Michigan can strengthen the emerging market for small and mid-scale farm products and related processing services by supporting peer-to-peer and region-to-region networking that can build business-to-business success. Encouraging local and state economic development authorities to identify and address this sector is key to such “economic gardening” success.

Models for Michigan from Other States

❖ On Farm Biodiesel Processing

Organic Valley, based in Wisconsin, developed an On Farm Biodiesel program in 2008 to enable farmers to process oilseed crops into fuel directly on their farms. The mobile system is housed in a trailer and has equipment to extract, filter, and refine oil into biodiesel as well as to separate out feed meal.⁸ Farmers in Wisconsin who have piloted the system with camelina (a small false flax) and sunflowers have seen yields of 80-110 gallons of oil per acre and 1200-1500 pounds of feed meal per acre.^{9,10} Organic Valley studies show that with this system farmers can generate up to 70% of their fuel needs and 50% of their feed meal needs on 10% of their tillable land-base.¹¹ The system allows farmers to save on feed

⁸ Cahalan, S. (2009) “Organic Valley Farmers Experiment with Making Biodiesel, Feed Meal.” LaCrosse Tribune. Edition: Sunday, October 11, Business News.

⁹ Organic Valley Web site; About Us; Sustainability; On-Farm Sustainability.

<http://www.organicvalley.coop/about-us/sustainability/on-farm-sustainability/>

¹⁰ CROPP Cooperative 2009 Annual Report.

http://www.organicvalley.coop/fileadmin/pdf/CROPP_Annual_Report_09.pdf

¹¹ Organic Valley Web site; Why Organic; Research Library; Videos; Bio Fuels.

<http://www.organicvalley.coop/resources/videos/bio-fuels/>

and fuel costs and the unit's mobility allows multiple farmers to share equipment, greatly reducing the capital investment required and reducing the need to move large amounts of raw material on our state's roadways.

Michigan should assist farmers in the state to replicate the Organic Valley model of mobile biodiesel processing to increase farmer profitability and promote renewable energy.

❖ Processing Local Produce for Schools

Harvest Food Group in the Chicago area developed a program to flash-freeze fresh produce picked in the summer from Michigan and nearby states to sell to Chartwells Chicago, for Chicago Public School children to eat throughout the school year.¹² While the local frozen produce is slightly more expensive than the frozen produce available to schools through USDA Foods, it is significantly less than commercially available frozen foods and the improved taste and quality has encouraged students to eat more fruits and vegetables.¹³ The success of the program has generated demand for frozen local foods in other school districts and other sectors of the Compass Group.¹⁴ In our own state, a farm to school initiative in Detroit last year found no facilities for packing local food products in serving sizes for school breakfasts and had to use an Indiana company instead.

Michigan should incentivize in-state processing to meet the demands of school districts for local food, including in the flash-frozen forms and the serving sizes school food service needs.

¹² National Good Food Network. (2009) "Growing: The Supply Chain from Michigan Farms to Chicago Schools." Network News, December 2009 issue. <http://www.ngfn.org/resources/networknews/december-2009#growing-the-supply-chain>

¹³ Modzelewski, M. (2009) "Chartwells' Bob Bloomer Redefines "Fresh" for Chicago Public Schools." School Food FOCUS Blog. <http://www.schoolfoodfocus.org/?p=249>

¹⁴ Bloomer, B. (2011) Presentation at Family Farmed Expo Chicago. March 17-19.