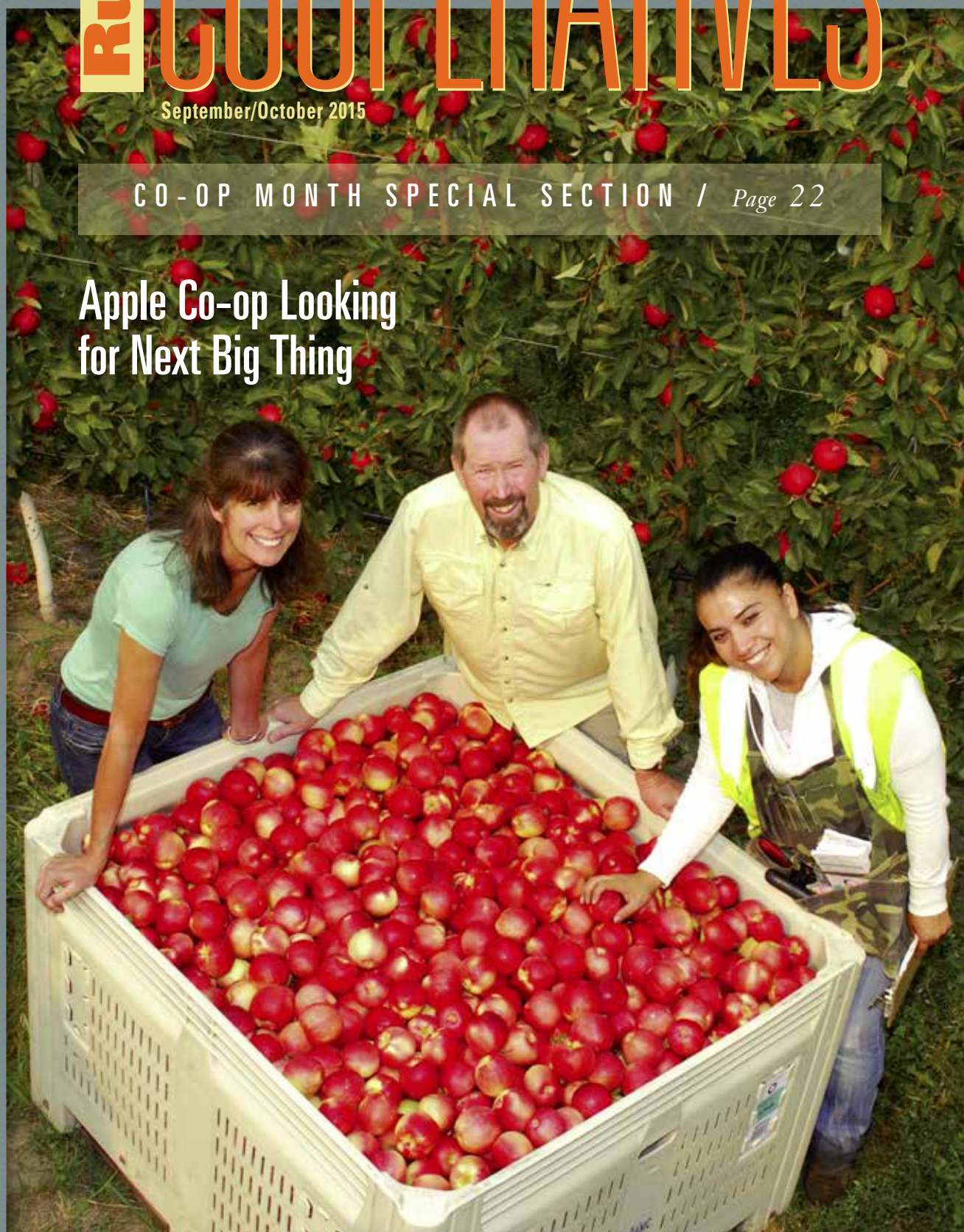


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September/October 2015

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Apple Co-op Looking for Next Big Thing



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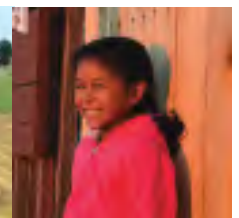
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ON THE COVER: Bill and Angell Clark farm 105 acres of SweeTango and other apples in Washington's Chelan Valley. They are members of the Next Big Thing (NBT) Cooperative, which is pursuing the premium apple variety market. With them is employee Susy Galvan (right). See article on page 16. Photo Courtesy NBT Cooperative





Building a Better Apple

Co-op pursues premium market niche by producing, marketing new varieties

By Julia Stewart

Editor's note: *Stewart is a 20-year veteran of U.S. apple and produce trade associations and is married to Minnesota apple grower Dennis Courtier. She splits her time between Washington, D.C., and Minnesota. This article is provided courtesy Next Big Thing, A Growers' Cooperative.*



Tom Rasch, Jr., remembers all too well the dark days the U.S. apple industry experienced in the

1990s. So when the opportunity arose in the 2000s to try growing and marketing apples a different way, he bit the fruit.

The Greenville, Mich., grower came of age working beside his parents, Tom Sr. and Judy Rasch, on their 160 acres of orchards. He took over the operation bearing their family name — Tom Rasch & Son Orchards LLC — in the mid-1980s. An industry innovator, Rasch was one of the first growers in the state to adopt high-density orchard technology, in which smaller trees are trained to trellis systems, increasing their fruit volume and quality. By the 1990s, however, a number of

market forces had combined to drive apple prices down through the floor. Apples had become commodities at retail, and a flood of apple juice concentrate from China effectively ended the market for U.S. juice apples. Further, a hangover lingered from the devastating 1989 Alar crisis, which had caused sales to drop precipitously amid consumer concerns over the safety of the fruit. Farm-gate prices that decade averaged only 20.8 cents a pound for fresh-market apples. In contrast, in 2012 the average price was 45.3 cents per pound.

"We barely survived," Rasch reflects. "Then, the founders of Next Big Thing sought me out to be a member of their group of elite growers."

Rasch is one of 44 apple growers who are members of "Next Big Thing, A Growers' Cooperative" (NBT). Its members hail from across the United States and Canada. Their ranks include both small and large producers.

Market 'turned on its head'

NBT was the brainchild of Minnesota apple grower Dennis Courtier, owner of Pepin Heights Orchards Inc. While Minnesota is a small player in the U.S. apple industry,

ranked 20 out of 29 commercially producing states in 2014, Courtier is well known in the industry for new variety innovation. He was one of the first commercial producers to grow and market Honeycrisp apples in the 1990s. Honeycrisp — a "fruit phenomenon" produced by the University of Minnesota's (UMN) apple-breeding program — has turned the apple category on its head. By 2014, it had rocketed to become the No. 6 apple variety in the United States, based on production. Honeycrisp's success spurred a flurry of new variety introductions, and the apple category began to lose its "commodity" image.

Like Rasch, Courtier had suffered through the early 1990s. Honeycrisp saved his orchards, but soon it was being grown in geography it wasn't suited to, and, arguably, being overgrown. The university had released it as an "open variety" — meaning that after paying a small royalty to a variety's developer, any grower can buy Honeycrisp trees and sell the fruit as they wish.

If apple growers were to be financially healthy in the long term, Courtier felt that apple production and marketing would have to change



Apple varieties have evolved to be treated as intellectual property, and interested parties “pay to play.” Here, SweeTango variety apples ripen in the orchard of a Next Big Thing (NBT) Cooperative member’s orchard. All photos courtesy NBT

significantly. And so NBT was born. Courtier served as its first chairman; Pepin Heights’ then-marketing chief Tim Byrne was its first president.

Setting the standard

Today, the co-op searches out and tests promising new apple varieties from around the world. When group members decide they’ve found a worthy variety, NBT buys the rights for its grower-members to produce and market it. The co-op then sets production and packing standards so that only the best quality fruit is shipped to market. It also invests to create a consumer market for the brand, including outreach to retailers and consumers using traditional and new media. It engages consumers on social media — a new approach for a single apple variety.

“We have to please consumers. When they get [our apples] in their hands, they have to taste good,” says Rasch. “New varieties with good flavor and good characteristics... are here to stay.”

Like Courtier and Rasch, fourth-generation farmer and first-generation apple grower, Bill Clark and his wife, Angell, also knew that something would

have to change for small apple growers, such as themselves, if they wanted to stay in the business. Indeed, they felt the situation was even more critical for small growers than for larger growers.

The Clarks grow apples in Washington's Chelan Valley. Washington is the giant of the U.S. apple industry, producing nearly 60

and that rolls down to our sustainability."

Let your taste buds dance

The first apple variety NBT has taken to market is SweeTango®, another UMN product. Unlike the "open release" Honeycrisp, UMN debuted SweeTango as a licensed

NBT once the co-op was up and running, and the variety had proven its worth.

NBT growers think SweeTango tastes even better than its famous "mom," Honeycrisp, and "dad," UMN's Zestar variety. All of NBT's members grow Minneiska apple trees. Minneiska fruit that meets NBT standards is sold



"The commodity model doesn't work for a small grower. We have to do something different, or something better, because we can't do it cheaper."

percent of the country's entire apple crop in 2013. The Clarks are small fish in the state's very large apple pond, farming 105 acres of both conventional and organic apples.

The Clarks watched the decline of the Red Delicious (Reds) variety from a front-row seat. Chelan was historically known for producing prime-quality Reds. Then the variety was "bred to grow red" in parts of the state that weren't good "terroir" (or growing territory) for it. That fruit didn't taste as good or store as well.

The variety's popularity with consumers fell far and fast.

Washington's Red Delicious production fell by 27 percent from 1999 to 2012. In 2015, Red Delicious is forecast to no longer be the most-grown variety grown in the state. Over the years, the Clarks' Red Delicious and Golden Delicious trees have gradually given way to Honeycrisp and other varieties.

"As consumers ourselves, we know that if we consumers don't get a good apple, we don't come back for a while," says Bill Clark. "NBT is managing who grows an apple, where it grows, what the eating experience is. That's paramount to the variety's sustainability,

variety, a model being adopted by numerous apple breeders. Apple varieties have evolved to be treated as intellectual property, and interested parties pay to play.

by co-op-member marketers under the brand name SweeTango.

As of the 2015 apple harvest, about 800,000 Minneiska trees are in the ground nationwide. Most are



In the 1990s, a number of market forces combined to severely drive down apple prices. "We barely survived," says Tom Rasch Jr. (third from left). With him are sons (from left) Devin, Eric and Kyle.

Pepin Heights competed for, and won, the North American license for Minneiska trees and their SweeTango fruit. The license was transferred to

conventionally grown, while a small percentage are organic. (It is very difficult to grow apples organically east of the Mississippi River because of the



"Marketing is huge," says Angell Clark, seen here with husband Bill. NBT's marketing plans gave the Clarks confidence in the co-op's overall strategy.

amount of moisture received.)

While production ramps up to goals, SweeTango apples are available for a limited time only each fall. Pent-up demand for the variety each fall serves to cement its premium branding. Strategically, NBT doesn't intend for SweeTango to ever become a year-round apple, so as not to risk its "commoditization."

Designing a business for the future

As a premium variety, SweeTango fetches higher grower and retail prices than commodity varieties. During the 2014 apple season, SweeTango garnered four times more per carton than the "commodity variety" Red Delicious.

What made Rasch decide to join NBT? "I liked the idea of a managed

variety. From production, to storage, to packing all the way through sales, everything was going to be managed," he said. "It made sense that if we weren't overproducing something, we should be able to get a better price." To ice the cake, "The fruit was exceptional — the best apple I ever ate," he says. "The quality of the apple, the growers I was associating with and the marketing that we were going to be buying into all looked to be promising."

The Clarks were attracted to NBT because "the commodity model doesn't work for a small grower," says Bill Clark. "We have to do something different, or something better, because we can't do cheaper."

"And then we heard the name!" adds Angell. That's when they knew they'd made the right decision to join the co-op. "By coming up with a great name... [we knew] that the folks making the decisions were aligned with what we believed is important," says Bill. "Marketing is huge; it gave us a lot of confidence that [the co-op was] putting so much into marketing," Angell notes.

The money that NBT spends on marketing, production research and administration means that its growers might not make as much as they could on a box of fruit. But NBT's growers also understand that the co-op's strategy of production and quality controls should mean that the prices they receive will remain higher than they would in an unmanaged setting.

"We've seen Honeycrisp turn into a free for all," says Angell Clark. "As growers, we all want the stability and longevity that lead to sustainability," adds husband Bill. "That happens by having brand standards."

The winding road to success

Its members and leaders note that it hasn't all been wine and roses at NBT. "There have been challenges at every step, concerns and issues all along the way," Rasch notes. "But as a group of accomplished growers working together, we've been able to overcome

most of these.”

David Cudmore concurs with Rasch. Cudmore is president and CEO of Scotian Gold Co-operative Ltd. in Nova Scotia, Canada, and chairs NBT’s board of directors. The 103-year-old Scotian Gold co-op has 55 grower-members who farm 2,500 acres of apples, producing just under 900,000 bushels per year.

When Courtier pitched the idea of NBT to Cudmore, “I was quite skeptical,” he recalls. “I’ve been in co-ops since the 1980s; I think they are not really understood in the apple industry. Apple co-ops have had a mixed record of success — many work, but not all of them.”

Cudmore says there are two primary challenges to overcome in bringing together disparate industry leaders. First, NBT’s members “can be competitors in the other parts of their [business] lives. To bring them together, to work together and trust each other, has been a huge challenge,” he says.

different than the issues [they] face as growers.”

Fully launched in 2006, NBT today has 44 grower-members. The price of entry was \$10,000 per production unit; a unit equals 10,000 packed boxes of fruit. A nine-member board governs NBT, with three directors from each of the co-op’s three geographic districts — East, Central and West. (The Canadian production, in Quebec and Nova Scotia, is included in the East region.)

The board meets in person twice a year on average, and by phone as needed, usually about once every month or two. The full membership gathers for an annual meeting, with the most recent one in Nova Scotia in early 2015.

The co-op has one full-time employee, President Theron Kibbe, whose background is in cooperatives. The logo and brand statement were developed by an award-winning firm that specializes in brand development. The co-op outsources marketing to a nationally known agency. Expert

Finance/Audit Committee. The co-op also funds research into production issues, retail marketing, advertising, public relations and social media activities.

“The kind of people who are in this organization aren’t waiting for someone else to come up with the ideas,” says Bill Clark.

NBT paid out its first patronage refund to members in 2014; another payment is planned this year.

“I think NBT has been very successful,” Cudmore says. “To bring this group together to work collectively on one project...to be recognized as a structure that can work to introduce other apples in North America, those are real successes.”

What’s next?

With SweeTango launched and its strategy progressing on schedule, NBT members are turning their attention to identifying the co-op’s next act. They recently decided to purchase the U.S. and Canadian license to a line of apple varieties members found in a breeding program of an international group of apple marketers; details are being kept on the “down low” for now.

What’s the prognosis for Next Big Thing, A Growers’ Cooperative? “I don’t think we’ve seen anything yet. This is a very successful business model to launch other varieties,” Cudmore concludes.

“I’m a real believer. We just jumped on the opportunity to buy more [SweeTango] lots, we feel it has an exciting future,” adds Bill Clark. “I would hope that this apple and the co-op can go far enough into the future that our two children can benefit from it. It means sustainability and success for us as a family, and as a farm business.”

“I believe that SweeTango is going to be the most profitable apple on this farm by far. SweeTango is here to stay... until the next big thing comes along, anyway,” winks Rasch. ■

NBT/SweeTango fact file

- Co-op founded in 2006
- 44 growers across three U.S. regions and two Canadian provinces
- First variety introduced: SweeTango®, developed by University of Minnesota
- Taste notes: Crisp and sweet, with a “lively touch of citrus, honey and spice”
- Available early September until gone (usually in December)
- Available in a variety of retail outlets, coast to coast
- Website: www.sweetango.com
- Social media: Twitter: @SweeTango; Facebook: [Facebook.com/SweeTango](https://www.facebook.com/SweeTango); Instagram: [sweetango_apple](https://www.instagram.com/sweetango_apple); Pinterest: [Pinterest.com/sweetangoapples](https://www.pinterest.com/sweetangoapples)
- SweeTango® is a registered trademark of Regents of the University of Minnesota



Further, “they are used to working in their companies’ best interests. It can be a challenge to put their individual interests aside to work for the good of an entire organization,” says Cudmore. “They have to take their grower hats off and put their co-op hats on; and the issues facing the co-op can be very

consultants research and advise on technical issues related to production and storage.

Engaged NBT members invest their time in the co-op’s three committees: the Best Practices Committee, which addresses production and storage issues; the Marketing Committee, and the

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