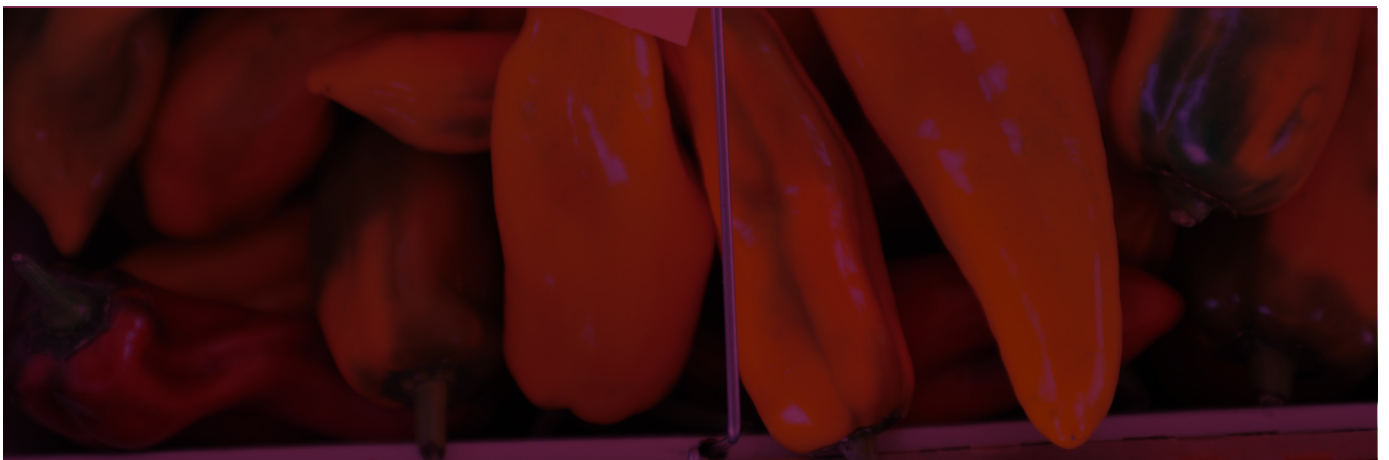




CHESTERHILL PRODUCE AUCTION: A RURAL APPALACHIA CASE STORY



Prepared for
Central Appalachian Network (CAN)

Our Mission

CAN’s mission is to work with individuals, community leaders, businesses, policy makers, nonprofit organizations, and others to develop and deploy new economic strategies that create wealth and reduce poverty while restoring and conserving the environment.

www.cannetwork.org

Our Members

- Appalachian Center for Economic Networks (ACEnet)
- Appalachian Sustainable Development (ASD)
- Center for Economic Options (CEO)
- Jubilee Project, Inc.
- Mountain Association for Community Economic Development (MACED)
- Natural Capital Investment Fund, Inc.
- Rural Action

Prepared by

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In April 2009, the Central Appalachian Network (CAN)¹ hosted a two-day gathering in Roanoke, West Virginia on “Growing Healthy Food Systems from the Ground Up.” This event brought together people from five states and from all points along the food chain – farmers, distributors, market managers and institutional buyers – as well as representatives from universities, nonprofits, foundations and government agencies. The purpose was to explore local food system development as a strategy for expanding economic opportunities, restoring the environment and increasing access to healthy, affordable foods. Through presentations, topic-specific discussions and regional meetings, the group identified several promising ideas in need of additional research and consideration. In response, CAN proposed a series of next steps, one of which was sharing practical knowledge and lessons learned from three regional projects. To that end, this case study examines the founding and early development of the Chesterhill Produce Auction (CPA) in southeast Ohio.

Like farmer’s markets, produce auctions are an efficient strategy for connecting growers directly with potential customers, operating at a set location and for a limited number of hours each week throughout the growing season. At a produce auction, however, items are typically sold in larger quantities and are auctioned off to the highest bidder. Although individuals may still bid, the produce auction is primarily designed to provide larger buyers (such as farm markets and grocery stores) with an alternative to corporate wholesale food distributors.

This model is particularly popular in regions with significant Amish and Mennonite populations because it provides an opportunity to sell in large volume within their geographic range of non-motorized transport. The fact that the Chesterhill Produce Auction was not actually founded by an Amish or Mennonite

¹ The Central Appalachian Network includes seven nonprofits who work in Appalachian counties in Ohio, Kentucky, Tennessee, Virginia, and West Virginia. They aim to create economic opportunities that are environmentally sustainable and that build on social and natural capital to meet the needs of their regions’ people. One of CAN’s members is Rural Action, an Ohio nonprofit whose work with Chesterhill Produce Auction is featured within this report. Learn more at www.cannetwork.org.

community makes it somewhat unique. However, it is important to note that this project was inspired by a Mennonite-founded auction in Bainbridge, Ohio and is located in a region with a significant number of Amish farmers, many of whom have been actively involved in the project from the beginning and make up a majority of the project's most consistent sellers.

A relatively new venture, the CPA had its first sales in 2005. It is located in an economically distressed² rural county approximately 90 miles from Columbus, Ohio and 30 miles from the West Virginia border. Its mission is to bring people to a rural site to buy quality produce and to create in Chesterhill a rural food destination and economic hub. This case study is designed to share information regarding the steps taken to realize this mission, the progress made to date and the lessons learned along the way.

Methodology

Staff and students from Ohio University's Voinovich School of Leadership and Public Affairs worked with Rural Action to compile this case study. In-depth interviews were conducted with four farmers, three buyers, CPA founder Jean Konkle and Rural Action's Sustainable Agriculture Coordinator, Tom Redfern. In selecting individuals to be interviewed, care was taken to obtain a variety of perspectives, including members of Amish and non-Amish farming communities, as well as customers purchasing for diverse venues such as restaurants, a university and a roadside farm stand. In addition, a variety of primary and secondary data sources were examined, including CPA's 2009 sales records, the Ohio Department of Development County Profiles and published research regarding produce auctions and Amish agriculture.



“I came from the perspective that fresh is best.”

In 2003, Jean and Marvin Konkle retired to the Village of Chesterhill in Morgan County, Ohio. Covering 417 square miles, the county has a population of less than 15,000, with only 1,700 residents in the county's largest town. The rate of poverty is high, with 36% of households living on less than \$20,000 per year and a median household income of \$28,868.³ The county's 520 farms include a total of 104,000 acres, an average of about 200 acres each, but the average income per farm is only \$23,805 per year.⁴ Since 2003 the annual unemployment rate has consistently stayed around 10%, but in 2009 the annual average reached 15.7%.⁵ For those who find jobs, the average travel time to work is 36 minutes, often in either Athens or Marietta, approximately 22 and 28 miles away, respectively. Although the Konkles did not have these statistics in hand, they soon realized that local geography and economic factors were playing a role in Chesterhill residents' limited access to good quality food. As Jean describes it, “People want and deserve good quality food; just because they live in a remote area doesn't mean they can't have good, fresh produce.”

The couple had moved from Bainbridge, Ohio—a town with a burgeoning produce auction owned and managed by a local Mennonite community. Because of this, they were familiar with this model's potential for simultaneously increasing access to locally grown fruits and vegetables while also generating

² Morgan County is designated as a distressed county by the Appalachian Regional Commission, based on having a low per capita income and high rates of poverty and unemployment. Retrieved January 30, 2010 from http://www.arc.gov/appalachian_region/ARCDesignatedDistressedCountiesFiscalYear2010.asp

³ 2007 Ohio County Profiles, Offices of Policy, Research, and Strategic Planning, Ohio Department of Development. Retrieved on November 20, 2009 from <http://www.odod.state.oh.us/research/files/s0/Morgan.pdf>

⁴ Ohio County Estimates, 2005 – 2008, Number of Farms, Average Size of Farm and Land in Farms. Retrieved on January 22, 2009 from http://www.nass.usda.gov/Statistics_by_State/Ohio/Publications/County_Estimates/landinfrms.TXT

⁵ Historical Civilian Labor Force Estimates, 2003–2009, Ohio Department of Job and Family Services. Retrieved January 30, 2010 from <http://lmi.state.oh.us/asp/laus/vbLaus.htm>

much-needed economic activity. Although working full-time was not part of their retirement plan, the Konkles decided to take action because of their strong conviction about what a produce auction could do for Morgan County and its residents.

Research suggests that the development of a produce auction tends to require a significantly larger investment of time than other alternative produce marketing strategies.⁶ The Konkles' experience certainly seems to confirm this finding. Jean Konkle began the process by talking to her new neighbors and garnering local interest in the project. Meetings were held with area residents to explain how a produce auction works and how it could benefit the community. Some days they worked twelve to fourteen hours, but according to Jean, their commitment remained strong as they believed "[we] gotta get this done!"



No matter how passionate, though, the Konkles could not take on the task of beginning an auction on their own; the connections and information necessary to start such an ambitious project required many hands. At the same time they moved to the area, the locally-based development group Rural Action was working on economic development and entrepreneur support projects in Chesterhill. Rural Action staff came together with the Konkles and, as Tom Redfern recalled, "We helped them kick off their dream."

With Rural Action's assistance, the Konkles were able to attend conferences and develop relationships with community and economic development leaders in the region. These connections helped them set up the educational programming and networking they would need to encourage growers to participate. One important connection facilitated by Rural Action was with the Ohio State University South Centers Extension in Piketon, Ohio, which provided a wealth of information about produce auctions and local agriculture. The OSU Extension was an important educational resource for the Konkles and the Chesterhill community in the early days of the auction. Rural Action also helped to extend the marketing of the CPA beyond word-of-mouth. Because of their existing capacity, resources, and connections, Rural Action had the ability to create and distribute flyers, brochures, and other media publications; repeatedly reinforce direct marketing efforts with local businesses; and encourage large-volume buyers in the region (such as Ohio University and Athens-based restaurants) to visit the auction and consider incorporating it as a regular source of produce during the growing season. Rural Action's experience working to connect farmers with institutional markets started in 2003 and the CPA became a cornerstone of that strategy.

⁶ Tubene, S. and Hanson, J. (2002) *The wholesale produce auction: An alternative marketing strategy for small farms*. American Journal of Alternative Agriculture, Volume 17, Number 1.



"I thought it would be something good for the community and for families."

In the summer of 2004, the development of the Chesterhill Produce Auction entered its next phase. The Konkles visited their Amish neighbors to encourage them to become involved in the planning process. This was considered to be a critical step because, based on the experience of existing produce auctions, the Konkles understood that the participation of Amish farmers was necessary for them to achieve the consistent supply of high-quality produce necessary for the venture's success.

As described in a comparison study of Amish and non-Amish farming practices in Ohio, "while Amish farmers undoubtedly value efficiency and productivity... they will place higher value on factors such as family and community solidarity."⁷ For example, many Amish farmers reject the adoption of certain modern farming practices, in part because they might eliminate jobs and force Amish youth to seek work outside the community. This family-based, labor-intensive farming model tends to result in lower overhead costs for most Amish farmers which, in turn, enables them to generate a higher profit from produce sold at auction. In addition, the geographic proximity of a local produce auction is a major benefit for these farmers due to their limited use of motorized transportation. As a result, Amish farmers are often willing to sell a larger portion of their annual crop production at auction and, as the produce auction becomes integrated into the community, their ongoing loyalty helps to ensure the consistent supply of produce necessary to attract buyers. Almost all produce auctions rely heavily on Amish or Mennonite farmers, and the CPA is no exception.

Many Amish community members participating today have been involved with the auction since its inception. In the summer of 2004, a steering committee made up of the Konkles, OSU Extension Educators, Tom Redfern from Rural Action, and Amish and non-Amish growers was formed. This group

⁷ Sommers, D. G. and Napier, T. L. (1995) *Comparison of Amish and Non-Amish Farmers: A Diffusion / Farm-Structure Perspective*. Rural Sociology, 58(1).

established a work plan and laid out initial ground rules for the auction. Care was taken to ensure that the established framework was culturally acceptable to the Amish growers who would be essential to the success of the project. For example, auctions typically assign each buyer and seller a number to aide in tracking their purchases and sales. However, because the Amish community around Chesterhill has a religious objection to using numbers for personal identification, a policy was developed to provide them with letter designations instead.

Although there was still a lot of work to be done in early 2005, everyone involved was eager to see the auction begin. In the inaugural months, the auction was held under a tent. It was not until later in the summer that a driveway was created and a permanent structure built. The following year, the building was brought into compliance with Americans with Disabilities Act (ADA) standards and, in 2008 overhead garage doors were installed on the west-facing side of the building to facilitate easier loading and unloading of produce.

It is important to note that the establishment of the CPA required significant resource investment, especially on the behalf of the Konkles. Early in the start-up phase, the Konkles met with the Ohio Small Business Development Center (SBDC) at Ohio University's Voinovich School to develop a business plan for the auction. They took out a mortgage on their farm to provide the initial funding to get started and were responsible for providing the majority of funding over time. In addition, members of the Amish community donated many hours of volunteer time to the construction of the auction building. Rural Action contributed significant staff and AmeriCorps VISTA time and resources during the planning process and also worked with OSU Extension of Morgan County and Jean Konkle to apply for three grants that funded portions of the building and some later improvements. One was from the Southern Ohio Agriculture and Community Development Foundation (which is funded through Ohio's tobacco settlement) to help pay for the building and driveway in 2005, and two were from the Ohio Farm Bureau Foundation—one for the ADA improvements in 2006 and one for installation of the garage doors two years later. The investment for the CPA totals nearly \$150,000 most of which was personal investment from the Konkles.

A 2002 survey of nine produce auctions in Pennsylvania determined the minimal investment for start-up to be 1.5 million dollars. Although the surveyed auctions reported much higher sales volume than Chesterhill (averaging \$3.5 million per year) and serviced much larger Amish or Mennonite Communities, most are still operating with minimal infrastructure. Only four of the nine had a computer for recording transactions and only two had installed on-site refrigeration. The only additional specialized items owned by most of these produce auctions were carts, forklifts, and pallet jacks.⁸

The Chesterhill Produce Auction has seen steady growth each year from 2005 to 2009; however, it has not yet been profitable. The first three years had a net loss, but a change in the commission rate from 10 to 17 percent in 2008 resulted in a net profit for the first time. Even with the rise in commission, there was a notable increase in the income for growers in 2008 and 2009. Like other auctions, annual operating costs for the CPA are minimal and have remained steady at about \$4,194, on average, and include: liability insurance, real estate tax, electricity, portable toilet rental, food booth license, and auctioneer fees. Rural Action estimates that \$250,000 is needed for the CPA to become profitable. Increased sales volume will be the key way that goal is achieved.

⁸ Tubene, S. and Hanson, J. (2002) *The wholesale produce auction: An alternative marketing strategy for small farms*. American Journal of Alternative Agriculture, Volume 17, Number 1.



As an intermediary between sellers and buyers, it is important for the auction to aim for meeting the needs of both stakeholders. Over time, auction operations have been modified to encourage active engagement among each group. For example, the auction was initially held only on Thursday afternoons. Farmers, however, wanted a place to sell the produce that had ripened over the weekend; therefore, Monday auctions were added during the peak of the season, usually starting in July.

Another significant change was an increase in the commission taken by the auction itself. As is the case with many other auctions, Chesterhill started with a 10 percent commission rate. After a couple of seasons, lead participants realized this was not sufficient for the auction to continue functioning at an adequate level and was resulting in a net loss for the owners since the gross sales remained inadequate. The steering committee, which still consists of members of Rural Action, the Konkles, core Amish growers, and community volunteers, meets on an ongoing basis during the off-season to discuss changes that need to be made. During one of these meetings, the committee agreed that the commission rate would be raised to 17 percent. Using a shared decision-making process has been a successful strategy for the CPA, and it will continue to play an important part in future auction partnerships.

Rural Action's role has also grown and changed with the auction since its beginning in 2004. Initially, their function was to connect the Konkles with important community stakeholders, organize grower workshops with OSU Extension, assist with marketing and branding efforts, and help secure some additional funds for the project. Over time, however, Rural Action has played an increasing role in managing auction operations, regularly contributing time and expertise to the project. On any summer Monday or Thursday past three in the afternoon, you can be sure to find Tom and other Rural Action employees or volunteers in the auction's office, completing paperwork and chatting with producers and buyers. In addition, AmeriCorps VISTA volunteers working with Rural Action have spent hundreds of hours helping to support the auction since its inception. Since growing the volume of sales is essential to the auction's success, Rural Action's current work is bringing in new buyers within a 45 mile radius of the CPA, adding distribution capacity with a refrigerated truck and helping farmers grow the specific products buyers want. Recently, Rural Action has begun the process of navigating a new change for the auction as the Konkles have signaled their desire to sell. Working with all stakeholders, Rural Action is crafting a strategy to give farmers and auction customers a long term stake in the CPA's success.



“A produce auction has to come from the grassroots of a community.”

On auction days, sellers trickle into the CPA site and begin unloading their produce, which is sold by individual lots, divided by the growers and loaded onto pallets overseen by an older Amish farmer who serves as the floor manager. To ensure produce sales are credited to the correct farmer, sellers label items with their permanently assigned number or letter. The specific items sold vary by season, with buyers in May and June seeing a great deal of flowers, strawberries, and vegetable plants, while later in the season corn, squash, green beans, peppers, potatoes, and tomatoes are staple crops. In 2009, 41 people sold goods at the auction and 39 percent of sales were made by Amish farmers. Just over a quarter of all sellers participated in 10 or more auctions throughout the year (26.8 percent). However, 9 of the 11 most consistent sellers were Amish. Clearly, as anticipated, this group of farmers plays a particularly critical role in stabilizing the auction’s produce supply.

Buyers typically begin showing up around 3:00 in the afternoon, an hour before the auction officially begins. This gives them time to apply for a permanent buyer number or letter if it’s their first time buying at the auction and browse the produce before bidding. An early arrival also gives people a chance to catch up with neighbors and meet other auction attendees. The auction is a friendly environment and includes people from a wide variety of backgrounds. In addition to large buyers, working professionals, retired couples, young families, and college students also come to the auction to purchase locally grown, reasonably priced, bulk produce. As word of the auction has started to spread, the customer base has continued to grow and diversify. At the peak of the season, an average of 20 sellers and 70 buyers attend each auction. Some auctions attract well over 150 buyers, and every auction includes many non-buying attendees.

At precisely 4:00, the auctioneer gets everyone’s attention and the auction begins. The CPA has had two auctioneers since 2005 and they are paid an hourly rate for their services, which has generally included a guaranteed minimum. Since late 2007 Mike Nicholls of Pennsboro, West Virginia has been the auctioneer. Like Jon Morgenstern of Washington County who preceded him, Mike plays an active role in planning and marketing activities for the auction, and generally attends several advisory board meetings each year. One Amish farmer described the auctioneer as “easy to work with” and praised his ability to consistently balance the interests of both buyers and sellers.

Starting at one end of the pavilion, the auctioneer works his way up and down the rows of produce. Each product is auctioned off by lots. Generally the highest bidder decides how much of the lot he or she wants: if there are ten cases of squash being sold, the highest bidder might take five at \$15 each, and then that price would be offered to the next highest bidder and put up for auction again if that bidder did not want it. However, sometimes partial lots are not available and potential buyers must bid on the entire lot. The goal is to force people to “be the bidder” or forfeit the produce if they sit back and wait. At least one interviewed farmer expressed concern about how partial lots are currently auctioned because the remaining items tend to be sold at a much lower price and are not as profitable for the seller. He recommended re-auctioning the remaining items as a separate lot to give farmers a second opportunity to obtain a competitive price for this residual produce.



The lot system has fluctuated over the years; often depending on the supply and attendance of individual auctions. At times it has created some friction and confusion and the CPA continues to struggle with the best way to serve growers and bring in a range of buyers. Larger buyers prefer large lots to be auctioned at the beginning so they can make their purchase and return to work rather than staying for the entire auction. However, there is concern that when smaller lots are auctioned at the end, many people have already left and the prices fall too low. Regardless, interviewees stated the importance of retaining smaller lots so community members have access to the fresh produce provided at the auction.



Once a lot has been sold, the buyer number/letter, seller number/letter, and unit price are all recorded by the auction clerk, with copies going to the produce auction, the buyer, and the seller. Over 360 buyers purchased from the produce auction in 2009, with some coming only once and others showing up for nearly every sale. Approximately four of five are individual community

members who use their purchases for themselves and their families, while only about 1% are purchasing for local restaurants or Ohio University’s Dining Services, which often buys auctioned produce to serve in the student dining halls or in the campus’s upscale restaurant, Latitude 39. Notably, people who purchase produce from the auction to resell at another location (such as a roadside farm stand) make up the second largest number of buyers, but the highest percentage of sales for the CPA. In the 2009 season, 48.3 percent of sales were attributed to buyers who typically resell their auction purchases in neighboring rural towns and counties. This finding suggests that the Konkle’s have achieved their original goal of improving local access to fresh produce in both Chesterhill and surrounding communities.

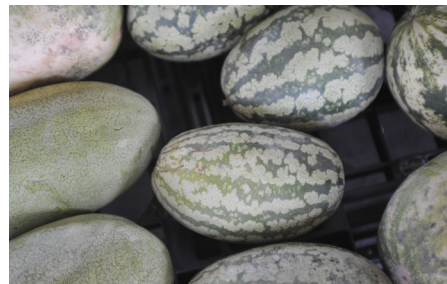
The amount of produce purchased by each buyer varies widely depending upon how it will be used. To provide a snapshot of a single auction, one Thursday in late August 2009, ten farmers sold \$2,001.80 worth of produce to 44 buyers, with individual sales ranging from \$1.00 (for personal consumption) to \$121.00 (for institutional use). To give a sense of the diversity of items on offer, produce purchased that day included potatoes, eggs, tomatoes, beans, cabbage, onions, beets, rhubarb, celery, watermelon, okra,

sweet potatoes, cucumbers, squash, cauliflower, carrots, eggplants, pumpkins, grapes, flowers, dill, corn, cantaloupes and a wide variety of peppers.

Each auction lasts about two hours and the amount of produce sold varies greatly depending upon the time of year and day of the week. Prices tend to be highest at the beginning of the harvesting season, when each particular crop first becomes available for purchase. For example, the first ripe tomatoes of the season commanded prices ranging from \$13 - \$24 per peck in early July, but a month later, these same tomatoes could be purchased for \$3 - \$8 per peck. Prices tend to rise again at the end of each product's growing season as the supply becomes more limited. According to information collected by the University of Kentucky Cooperative Extension Service, price volatility is the primary risk associated with farmers using produce auctions as a main marketing strategy and may help to explain why over 50 percent of produce auction sellers in their region sell less than half of their produce in this manner.⁹ One strategy that has been suggested for addressing this issue is to work with farmers to adjust their planting schedule in an effort to harvest at the beginning or end of a particular product's growing season to obtain the highest price per pound possible.¹⁰ Consistent attendance by sellers can also ensure that farmers offset lower auction prices with higher auction prices from other days.



In 2009, sales ranged from \$454-\$2447 per auction, with Thursdays typically bringing in larger sales. Every Thursday sale brought in over \$1,000, whereas several Monday sales generated less than \$1,000. To some extent, this pattern may be self-reinforcing. As farmers become aware that Mondays tend to generate fewer sales, they may become less inclined to bring produce on that day, resulting in a lower produce volume that could further decrease sales over time. If this becomes a problem, the produce auction could consider strategies for incentivizing participation in the Monday auction, such as establishing a differential commission structure or rebate system.



When buyers have finished purchasing for the day, they visit the office to pay for their produce. The auction takes its commission out of each sale to help support operations, and sellers can pick up the checks for their sales at the following week's auctions. Since several regular sellers have farms thirty miles or more from Chesterhill, this need to return for payment can be burdensome, and at least one farmer raised this as an issue during the interviews.

In addition to items sold at the auction, a small space has been re-modeled next to the office for the sale of retail items. These typically include homemade baked goods, gifts, and household items. Anyone can place items in the retail store with the agreement of the other sellers who run the store, primarily Amish women. In 2009, eight people sold goods in the store and the majority of these were Amish. Over \$3,000 was generated in sales, and the sellers took turns volunteering to staff it. A 17% commission is also taken on any items sold in the store.

⁹ University of Kentucky Cooperative Extension Service (2009) Marketing at Produce Auctions. Accessed January 23, 2009 from <http://www.uky.edu/Ag/NewCrops/marketing/auctions.pdf>

¹⁰ Tubene, S. and Hanson, J. (2002) *The wholesale produce auction: An alternative marketing strategy for small farms*. American Journal of Alternative Agriculture, Volume 17, Number 1.



“I think it’s just going to get better and better as time goes on.”

In the five years since the Chesterhill Produce Auction was started, auction stakeholders, including the Konkles, Rural Action, and area farmers, have learned valuable lessons about what does and does not work. One of the primary goals in developing this publication is to share this information with others who are either working with fledgling auctions or considering embarking on a project of this nature in their own community. Please note that this information is not presented in any particular order and that it primarily reflects the experiences of a single auction which may not be applicable to similar efforts located in regions with different economic, geographic or demographic profiles.

Lesson 1: A Produce Auction is Like a Barnraising: Partnership is Critical

Getting the Chesterhill Produce Auction started required the collaborative effort of numerous individuals, organizations and communities over a period of years. The Konkles provided the initial motivation and financial commitment; Rural Action and OSU Extension offered expertise, connections, technical assistance, and ongoing support; foundations and government agencies helped with some key physical improvements to the property; the Amish community donated labor and committed to selling at the auction on a regular basis; a variety of individual and institutional buyers have consistently attended and purchased products. This diverse collaborative framework provided the auction with opportunities that would otherwise not have been available. For example, as a nonprofit organization, Rural Action was able to apply for grants for which the Konkles could not have qualified on their own and to consistently augment CPA staffing.

Working with individuals and organizations that already have positive ties to the farming community and area small towns may initially help to build trust between growers and buyers, and to inspire confi-

dence in the auction itself, but ongoing efforts require a more formalized relationship with a shared vision. Taylor-Powell and Rossing (1998) outline specific components needed for successful partnerships, including: clear communication channels, joint planning and action, negotiated roles, long-term goals, resource sharing, risks and rewards.¹¹ Interview participants suggested these components have occurred at varying levels through the life of the CPA, but that concrete actions, such as the steering committee and Rural Action's planned commitment to facilitating the auction's transition as the Konkle's seek to divest, have been and will continue to be critical to the partnership and sustainability of the auction.

Lesson 2: Buyer and Seller Commitment is the Key to Success

A newly opened retail store may have the luxury to build critical mass over time, but a produce auction does not. To function, both sellers and buyers must show up for each auction from the very start. If one half of this equation is inadequately represented, the other will leave unsatisfied – either without receiving an adequate price for available produce or without obtaining the produce desired. Since many farmers and customers travel 30 minutes or more to reach the CPA, one or two disappointing experiences may be enough to discourage future participation. As a result, auction organizers must work to ensure adequate participation commitment prior to scheduling the first sale.

Lesson 3: Invest Time in Relationship-Building

One story from the CPA vividly demonstrates the vital role personal relationships can play in building a successful auction. During the interviews for this report, one buyer described his initial skepticism about the produce auction's ability to consistently provide the quantity of produce he required. As a result, he repeatedly ignored flyers and emails inviting him to give the auction a try. However, when a personal invitation from someone he knew that worked at Rural Action finally got him to go, he found *"far more than [he] was expecting"* and has been a regular buyer ever since. Although the CPA has experimented with various types of traditional advertising vehicles, the business has primarily been built through one-on-one relationships with farmers, institutional buyers, and community members (and the positive word-of-mouth advertising that these relationships generate).

In addition to bringing new people to the auction and working toward profitability, the establishment of authentic relationships can also help maintain a produce auction over time. Because one of its functions is to provide an opportunity for diverse community groups to meet and do business, produce auctions can be the site of cultural conflict and misunderstanding. At Chesterhill, Amish and non-Amish participants must learn to work together and both must become comfortable interacting with the range of alternative lifestyles and personal appearance choices that tend to thrive in a progressive college community like Athens. Depending upon location, other produce markets may need to accommodate a range of religious, ethnic, and socioeconomic diversity. Regardless of the specifics, any heterogeneous group of people is bound to experience conflicts periodically. However, if time has been taken to forge one-on-one, boundary-crossing relationships, there is a much greater chance that these issues can be openly acknowledged, discussed and worked through in a manner that strengthens, rather than weakens, the overall project.

Lesson 4: Encourage Stakeholders to Participate in Decision-Making

Regardless of an auction's ownership structure, an advisory board or steering committee composed of buyers, sellers, and representatives from other interested groups can help auction managers avoid alienating key stakeholders or making costly errors. For example, when the Chesterhill Produce Auction

¹¹ Taylor-Powell, E. & Rossing, B., *Evaluating Collaborations: Challenges and Methods*. Retrieved January 30, 2010 from <http://danr.ucop.edu/eee-aea/rossing.html>.

realized that the initial 10 percent commission rate was not sufficient to cover their costs, they were able to successfully implement an increase to 17 percent without losing a single farmer, largely because the action was implemented by a representative steering committee. Farmers on the committee understood why the change was needed and were able to explain it to others, thereby, reducing resentment and encouraging buy-in. When working with a committee of this sort, it is important to clarify and regularly reinforce whether the group has decision-making authority or is an advisory board to those with the decision-making authority (usually the auction's owners or managers). Either structure may be appropriate depending upon the specific situation, but misunderstandings and resentment can arise when the locus of decision-making authority is not clearly understood by everyone involved.



Lesson 5: Buyers, Sellers and the Community May Benefit Long Before the Auction Turns a Profit

The four sellers and three buyers interviewed for this story indicated that participation in the CPA is financially beneficial for them. For farmers, the auction provides a time efficient strategy for selling large quantities of produce at an acceptable price. Farm stand owners use the produce auction to manage stock fluctuations, selling items they grew too much of and purchasing others that they either do not grow themselves or need in larger quantities. Other types of buyers report being able to obtain high-quality products for very competitive prices; as one put it, the produce from the CPA is *"far superior to what we can get commercially,"* and the prices are as good as or better than what can be found in stores.

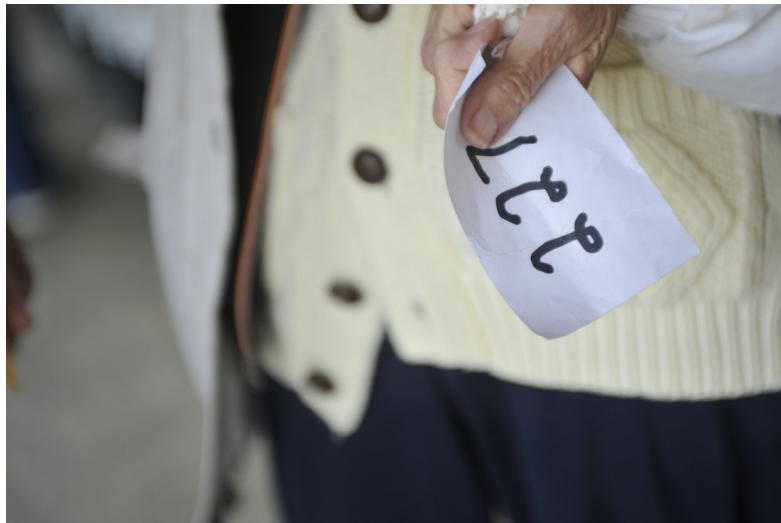
The greatest benefit of the CPA, however, may be the effect it has on the local community. The auction quickly became a gathering place for people in the area—on any given day, there are many people simply watching the auction and talking to one another. In addition, the gathering provides a natural networking opportunity for those interested in agriculture, and several of those interviewed described new business ventures, collaborative relationships or reciprocal production agreements that began through a conversation at the auction. The participants at Chesterhill are very aware of the fact that they are helping their neighbors, the local economy, and the environment through their participation in the auction. As one buyer noted, there are *"so many opportunities"* to increase these benefits to the community as the auction grows.

That said, the produce auction itself has yet to turn a profit, and this raises important issues related to the overall volume of sales.

Lesson 6: Volume, Volume, Volume

To paraphrase one of the interviewed buyers, the real challenge faced by the CPA is generating sufficient sales volume, saying *"if [volume] is there, everything else falls into place."* In their 2002 study of Pennsylvania produce auctions, Tubene and Hanson obtained financial information from six auctions, each of which was earning profit on a commission rate of between 8 and 10 percent within an average of four years. This was possible because of their ability to generate average annual gross sales of \$3.5 million, which provided approximately \$290,500 to cover their overhead costs.¹² In 2009, CPA recorded annual sales of nearly \$64,000. This is an impressive achievement and, as described above, has had a positive

¹² Tubene, S. and Hanson, J. (2002) The wholesale produce auction: An alternative marketing strategy for small farms. *American Journal of Alternative Agriculture*, Volume 17, Number 1.



economic impact for sellers, buyers and the overall community. However, even charging 17 percent commission in 2009 generated less than \$11,000 to cover the costs of providing 42 auctions plus overhead related to facility maintenance, marketing, staffing administration, insurance, etc. Some of those interviewed for this report recommended that strategies be explored for extending the growing season with increased use of greenhouses and for generating additional revenue by renting out the property for

weddings, dances, concerts or other events. Although these ideas are certainly worth considering, as the buyer stated above, sales volume remains the key to profitability for produce auctions.

Lesson 7: Develop a Marketing Plan

The CPA has done a remarkable job publicizing its activities and generating a core group of committed participants. One tool that can be extremely helpful for organizing and maintaining this outreach effort is a marketing plan. Right now, produce auctions have the opportunity to take advantage of popular concern regarding genetically modified crops, the need to invest in local economies and the environmental and health benefits of locally grown foods.

In addition, effectively communicating the purpose and goals of a produce auction may also result in unexpected benefits. One regular buyer at the CPA described how, as his understanding grew about what the Konkles were trying to achieve through the auction, he ceased to look only at the bottom line when making purchasing decisions and began to think about how his buying behavior could contribute to this larger vision.

Many local economic development organizations and cooperative extension offices can work with local organizers on the development and implementation of an effective, cost-efficient marketing plan.

Lesson 8: Strive to Maintain a Diverse Customer Base

Both the Pennsylvania and Kentucky produce auction reports recommend cultivating a diverse customer base rather than following the traditional business adage of target marketing. All nine Pennsylvania auction managers reported that “a flexible marketing strategy, giving access to a variety of buyers, brings better prices.”¹³ However, different types of buyers have different, and sometimes competing, preferences and striking a balance between these divergent needs can be challenging. For example, at the Chesterhill Produce Auction, individual community members are the largest category of buyers and generated nearly 36 percent of all sales in 2009. However, people who purchased produce to resell at another location only made up 13 percent of buyers but accounted for 48 percent of sales in 2009. Those purchasing for restaurants and institutions only made up 1 percent of buyers, but tend to buy large quantities at a time.

¹³ Ibid. p. 20

Individuals purchasing food for family use tend to bid on smaller lots in which the produce is sorted into retail-sized containers (quarts of tomatoes as opposed to bushels, for example). Ideally, the auction would like to increase the percentage of sales to institutional buyers, like Ohio University, because these customers buy in larger volume, are typically willing to pay competitive prices and enable more produce to be sold in less time. As a result, increasing the percentage of these buyers can be expected to simultaneously increase the amount of commission earned by the auction (through higher sales volumes) and decrease auction length (reducing the time commitment required for farmers, staff, and volunteers) as well as overall costs (by decreasing the length of time for which the auctioneer must be paid). However, these institutional customers tend to prefer larger lots with produce packaged in wholesale-sized containers.

In addition, one of the CPA institutional buyers strongly prefers that large lots be grouped at the beginning of the auction. This makes the process easier and more efficient for big buyers, as it allows the employees they are paying to visit the auction to leave after these lots are sold. Such an approach also encourages competition between institutional buyers, which in turn increases revenue for both the grower and the auction. One major drawback of this setup is that by the end of the auction, there are few buyers left and the final lots draw consistently lower prices. Additionally, since individual consumers make up the majority of auction buyers, smaller lots are more marketable to them. As a result, several growers have expressed a preference for interspersing big lots with small lots, encouraging institutional buyers to remain throughout the auction. Differing opinions on the arrangement of the auction requires ongoing attention to the issue. Members of the steering committee continue to discuss this aspect of operations because it is crucial for maintaining relationships between buyers and growers. The University of Kentucky Cooperative Extension Service notes, lot placement and size can affect price as much as the quality of the produce.

Lesson 9: The Development of a Produce Auction is a Marathon not a Sprint

The CPA has achieved remarkable results over the past five years, but more work is necessary before it can stand on its own as a self-supporting business. One stakeholder suggested the way the CPA developed is an anomaly and that others may be better off starting as a cooperative business venture. However, those considering establishment of a similar venture should carefully research the availability of appropriate buyers and sellers, the proximity of potential competitors and the availability of public and private funding to sustain the operation through its pre-profit years. It is also worthwhile to cultivate alternative forms of support such as volunteer workers, student interns, and in-kind donations, recognizing that non-wage laborers are not cost-free, typically requiring significant investments in management time and training.

Although a long-term project, produce auctions have the potential to generate substantial returns in the form of local economic activity, grassroots community development and improved access to high-quality, locally grown agricultural products. The CPA provides an exciting example of how this effort can benefit local farmers, residents and the community as a whole.

The following list summarizes and expands upon the previously described lessons learned based on the experience of the Chesterhill Produce Auction. These items are listed in no particular order.

1. Recruit committed buyers and growers

- A local produce business must have local farmers and farmers need to know there will be buyers before they will commit their limited resources.
- Involve the local Amish or Mennonite community.

2. Meet with people in person

- Be prepared to discuss the benefits of starting the auction and how it might work, but be flexible.
- Establish and manage expectations for being a consistent seller or buyer at the auction.

3. Identify your target customer

- Consider towns, restaurants and institutions, resell businesses, individuals and families.

4. Obtain a committed location

- Keep in mind: accessibility from target market areas and towns, room for parking and expansion.
- If leasing or using an existing structure, negotiate low-cost use of facility (commissions typically are 10% so be aware of the impact leasing a facility will have on the overall operations budget).

5. Partner with a local organization

- Focus on start-up phase first (i.e. financial stability and marketing).
- Utilize existing connections made and offered by the organization.
- Make contact with other produce auctions.

6. Obtain financial stability

- Commissions may not be enough while in the start-up phase. Consider diversifying funding through grants and loans.
- Leverage existing community resources. Sweat equity is as critical as grants and loans.

7. Have a marketing plan

- Never underestimate the power of community word-of-mouth.
- Partner with other organizations for marketing materials and contacts.
- Explore low-cost marketing strategies using local media outlets.

8. Establish a steering committee or advisory board

- Incorporate various stakeholders (auction sellers, buyers, operations managers) to create a structure for open communication and ongoing feedback.
- Promote collaborative decision-making to build trust and engagement among auction participants.
- Assign the board the task of evaluating auction operations and progress on a regular basis. Recommended solutions for changes should be a part of the evaluation and decision-making process.

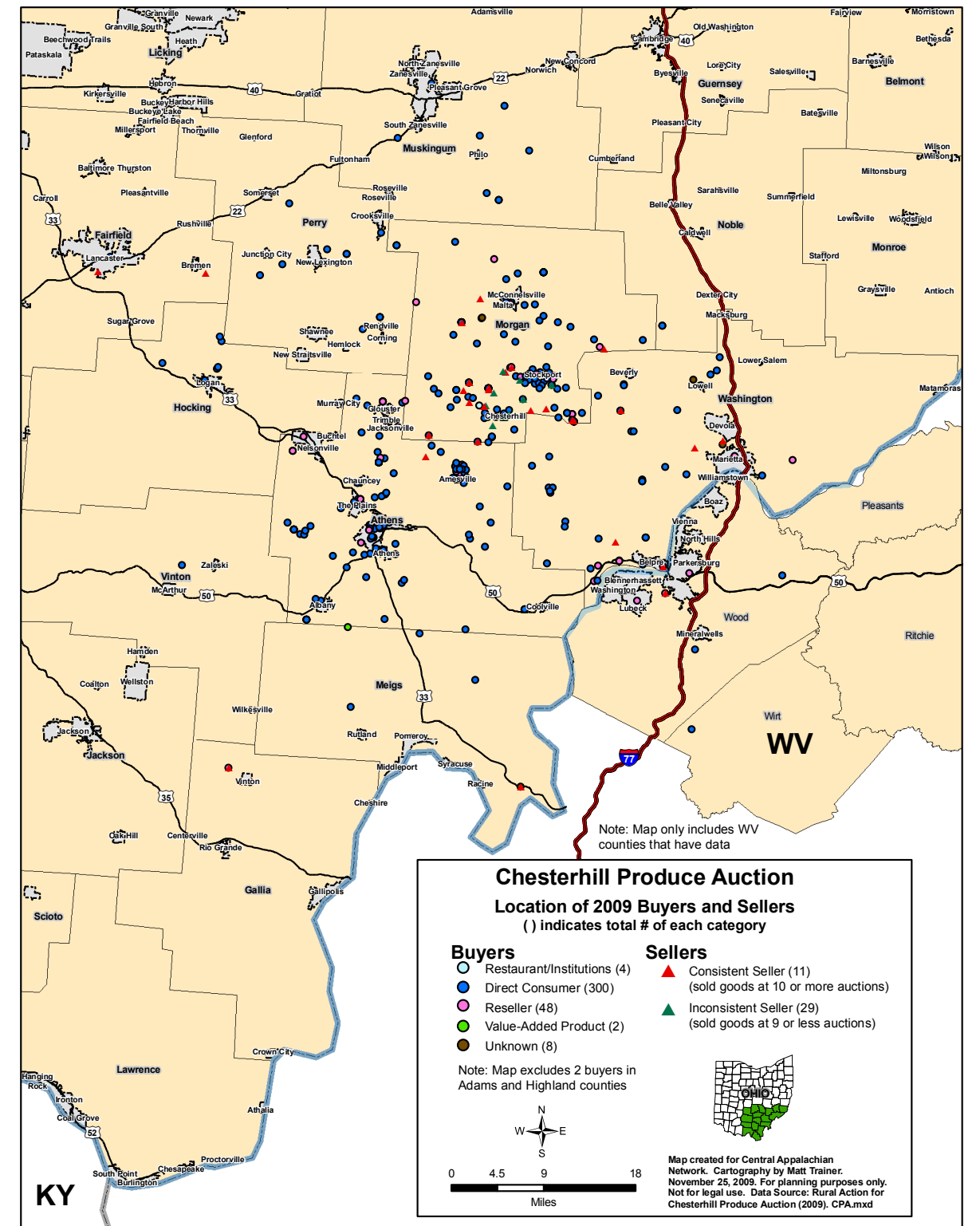
9. Establish roles and responsibilities

- Consider assigning the following roles with clear responsibilities: operations manager, accounting manager, floor manager, advisory board chairperson, marketing coordinator.

10. Develop a tracking system for sales

- Consider long-term uses for tracking produce and sales. This may be useful for future funding opportunities.
- Establish clear accounting systems and responsibilities for managing sales.
- Post auction results on a web site so buyers can know what to expect, and so that any low-priced sales can drive more buyers to the auction.

The following map displays the location of buyers in proximity to the Village of Chesterhill. Buyers are displayed according to their typical usage of the produce, as known by the auction office staff. Likewise, the seller locations are displayed and are categorized according to those who sold at 10 or more auctions versus those who sold goods fewer times. All of the data is based on the 2009 season (June – October 15, excludes May sales). Additional information about the auction's sales and produce can be found at www.ohiofoodshed.org/chesterhill/index.html



CHESTERHILL PRODUCE AUCTION DEVELOPMENT TIMELINE

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- 2003
- Rural Action places a business advisor, Tom Brenner, in Morgan County.
 - Rural Action Sustainable Agriculture receives funding from the Appalachian Regional Commission to increase institutional wholesale farm sales.
 - Jean and Marvin Konkle move to Chesterhill.
 - The Konkles meet Tom Brenner at a gathering of current and potential entrepreneurs in Chesterhill.
-
- 2004
- Rural Action staff tour the Konkles' farm and discuss earned income strategies; a working relationship is developed.
 - Jean Konkle discusses the possibilities of a produce auction with Rural Action. She is referred to the OSU Extension South Centers in Piketon, the leading resource on produce auctions in Ohio.
 - Rural Action, OSU Extension, and the Konkles begin exploring the idea of a produce auction in Chesterhill. The Amish community is contacted about their potential involvement.
 - Meetings with these groups begin in the summer.
 - The Konkles begin discussion of an auction with others in their community. The manager of the Bainbridge Produce Auction is brought to Chesterhill to speak about produce auctions to more than fifty people at a community meeting.
 - Rural Action creates flyers and outreach materials to distribute to potential buyers and sellers.
 - The auction's initial steering committee is formed.
 - Rural Action schedules workshops and tours to educate potential participants on auctions and farming technology. These continue into the winter of 2005.
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- 2005
- The auction property is purchased in the spring.
 - The first auction is held under a tent in June.
 - Construction begins on the auction building. The first auction in the new building is held in August.
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- 2006
- A Chesterhill Produce Auction brochure is created. Rural Action prints and distributes it.
 - A grant is received from the Ohio Farm Bureau Foundation. With the aid of this grant, the Konkles bring the auction structure up to Americans with Disabilities Act standards and add a patio seating area.
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- 2007
- Ohio University Dining Services, an important buyer, begins to purchase produce at the auction.
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- 2008
- Another grant from the Ohio Farm Bureau Foundation goes towards installing overhead garage doors in the auction building.
 - The steering committee agrees to raise commission to 17%.
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- 2009
- Using another grant from the Ohio Farm Bureau Foundation, Rural Action begins www.ohiofoodshed.org, a local foods website featuring the results from each auction.

Prepared by:

