



Value-added agriculture

A report to the citizens of the region between Burbank and Dayton from the Snake River to Milton-Freewater
Summer 2010

2009–2010 Community Council study committee



The 2009–2010 study committee met for 27 weeks (from Dec. 8, 2009, to June 15, 2010). The management team developed the curriculum in October and November. During the course of the study, 49 people participated.



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Table of contents

SUMMER 2010

EXECUTIVE SUMMARY.....	4	INFRASTRUCTURE	12
FINDINGS	6	▶ Labor capacity.....	12
Blue Mountain Station: Attracting value-added businesses.....	7	▶ Training	13
Voices of experience.....	8	▶ Facilities	14
Tim’s Cascade Chips.....	10	▶ Transportation	17
Midlands Meander, South Africa.....	12	REGULATIONS	19
Blue Mountain Cider Company	14	▶ Water	19
Washington wine industry.....	16	▶ Public health	20
Don Carlo Vineyards and Winery.....	17	▶ Land use	20
Key Technology	18	▶ Licensing.....	22
Shepherd’s Grain.....	20	FUNDING	22
Thundering Hooves	24	MARKETING	25
Ali’i Kula Lavender Farm.....	26	AGRITOURISM	27
What is “value-added”?	6	COUNTY GOVERNMENT AND ECONOMIC DEVELOPMENT...27	
Planning for a value-added agricultural business	6	CONCLUSIONS	28
RESOURCES	12	RECOMMENDATIONS.....	29
▶ Soil and climate	12	SUPPLEMENTAL RESOURCES	30
▶ Available raw product	12	RESOURCE SPEAKERS	30
		COMMUNITY COUNCIL BOARD OF DIRECTORS	31



The purpose of this study was to explore how the region's economic viability might be enhanced through the creation of value-added businesses using agricultural resources.

Executive summary

This summary provides an overview of the study. The reader is encouraged to read the report in its entirety to understand the breadth of the topic and the connections between the stages of the study process—findings, conclusions and recommendations.

Agriculture has been, and continues to be, a major economic engine for the region between Burbank and Dayton from the Snake River to Milton-Freewater. Like other sectors of the economy, agriculture is facing a number of challenges, including:

- ▶ Profit margins for production agriculture are often very narrow.
- ▶ The government is moving away from offering direct support to farmers. Without government support, some facets of agriculture could founder.
- ▶ Most farmers are not young and are looking for ways to increase profitability so that their children—who have left the farm to find employment—might return to the farm or so that they can sell the operation.
- ▶ Some nonfarmers are seeking ways to enter agriculture or related fields for the first time.

The purpose of this study was to explore how the region's economic viability might be enhanced through the creation of value-added businesses using agricultural resources. Value-added agriculture is the process of increasing the economic value and consumer appeal of an agricultural commodity.

During 27 weekly meetings, the study committee heard from 26 resource speakers representing government, businesses and institutions of higher education. They outlined the

challenges to and opportunities for creating value-added businesses, and they offered suggestions for making these businesses viable. The speakers also offered their thoughts on attracting already-established value-added businesses to the region.

The presentations provided information about the region's natural resources; infrastructure; land use, water and food-handling regulations; workforce; education; technical support; and marketing and financing options. Some of the speakers were themselves entrepreneurs, and they related important lessons about value adding that they have learned through their experience.

The study committee made every effort to ensure that this study is representative of the entire region.

The committee found that many opportunities exist for entrepreneurs with a passion for their value-added products, a willingness to adapt the products to meet the needs of the consumer, a sound business plan, a well-organized marketing plan and marketing tools, and a willingness to invest in necessary resources. Natural resources—as well as educational, financing, facility and marketing resources—are available in the region. The committee also identified some ways to maximize the effective use of those resources by value-added agricultural entrepreneurs.

Highlights

CONCLUSIONS

There exists a base of knowledge about crops that are no longer processed in the area; entrepreneurial market research should include a review of past and present agriculture products.

Careful market research, a well-organized marketing plan, a sound business plan and marketing tools are necessary for a value-added business to be successful.

Because value-added businesses and their products are regulated by multiple agencies and different departments within those agencies, it can be challenging and time-consuming to ensure that all requirements have been met.

Marketing has a significant effect on the success of value-added businesses. Products that are third-party certified, eco-labeled, branded or locally produced appeal to some buyers and can result in a premium paid to the producer.

Value-added agriculture products could benefit from establishing a regional brand. The marketing of local products should capitalize on name recognition, and the community should enthusiastically support branding efforts.

It is easier to retain existing businesses than it is to attract new businesses to the region.

Rail, truck and barge transportation are readily available for transporting products to major markets. Railcars expands the geographic area in which this region's products can be competitive, and empty westbound Railcars offer opportunities for importing resources. Regional transportation, particularly access by passenger airlines, is a perceived problem.

The governments in the study area deal with economic development challenges and opportunities differently. Umatilla County has a dedicated economic development department.

Regions may benefit from forming a federal Economic Development Administration district.

Communities that have innovative and entrepreneurial environments attract other successful businesses.

RECOMMENDATIONS

Promote awareness of the region's historical crops and processing industry, using sources such as Joe J. Locati's *The Horticultural Heritage of Walla Walla County, 1818–1997*.

Offer workshops to teach grant writing, business plan development and market research skills. Explore opportunities to offer an ongoing business advisory service.

Work with agencies to develop a generic checklist of steps for entrepreneurs to use in planning value-added businesses.

Educate businesses about third-party certification and the potential for an associated price premium.

Evaluate the interest in and need for a Walla Walla regional marketing brand.

Identify or create the organization(s) that will take the lead in facilitating the development of local value-added agricultural businesses.

Investigate the potential for importing by Railcar products that could benefit value-added businesses. Through printed materials or an awareness campaign, correct the perception that this region is handicapped by transportation challenges.

Evaluate the benefits of a unified economic development entity for Walla Walla County.

Encourage Walla Walla, Columbia and Umatilla counties to evaluate the benefits of becoming a federal Economic Development Administration district.

Encourage and recruit people and businesses to the area that will contribute to an environment of creativity and innovation.



Findings

These findings represent the information gathered by the study committee. They are derived from published materials, from information reported by resource speakers and from a consensus of the committee's understanding of the opinions of the resource speakers.

Agriculture has been, and continues to be, a major economic engine for the region between Burbank and Dayton from the Snake River to Milton-Freewater. Like other sectors of the economy, agriculture is facing a number of challenges, including:

- ▶ Profit margins for production agriculture are often very narrow.
- ▶ The government is moving away from offering direct support to farmers. Without government support, some facets of agriculture could founder.
- ▶ Most farmers are not young. Many of these farmers are looking for ways to increase profitability so that their children—who have left the farm to find employment—might return to the farm or so that they can sell the operation.
- ▶ Some nonfarmers are seeking ways to enter agriculture or related fields for the first time.

The purpose of this study was to explore how the region's economic viability might be enhanced through the creation of value-added businesses using agricultural resources.

The study committee gathered information about the region's natural resources; infrastructure; land use, water and food-handling regulations; workforce; education; technical support; and marketing and financing options.

Resource speakers outlined challenges to and opportunities for creating value-added businesses and suggestions for attracting them to the region. The study committee heard about first-hand experiences from a group of entrepreneurs already operating value-added businesses.

What is "value-added"?

"Value-added agriculture is a process of increasing the economic value and consumer appeal of an agricultural commodity."

—Michigan State University Extension

PLANNING FOR A VALUE-ADDED AGRICULTURAL BUSINESS

The current economic environment provides both challenges to and opportunities for creating value-added businesses.

The challenges include:

- ▶ Competition is intense.
- ▶ Technology will continue to replace workers in many segments of the economy.
- ▶ Energy and water resources are limited and expensive.
- ▶ Baby boomers (who make up 25 percent of the population) are retiring, and their spending will become more conservative.
- ▶ Future generations may have less

discretionary time and money.

▶ With the migration to and then from rural places, attracting and retaining a workforce will be challenging.

Some of these challenges are also opportunities:

- ▶ Consumers are developing preferences for seasonal variations in crops and are redefining the term "local" more opportunistically. Concern about the quality of imported foods, such as foods from China, has been good for local products.
- ▶ Aging baby boomers are driving the locavore and organic markets,

and that trend will likely continue.

- ▶ Worldwide food consumption patterns will likely create an increase in export markets.
- ▶ The declining value of the U.S. dollar may increase export opportunities.
- ▶ Internet marketing is increasing.

Use ideas and market research as the basis for realistic business planning. The initial step in planning for a value-added business is to conduct first-hand research about potential competition for customers and resources. It is important to determine the target market—know who will buy value-added agricultural products and how much money they have to spend.



Blue Mountain Station: Attracting value-added businesses

Columbia County is known for its cutting-edge farming practices, its food production and processing, and its restaurants. Those touchstones are guiding local economic development efforts after the closure of the Seneca vegetable processing plant, which was once the largest asparagus processor in the world.

Blue Mountain Station, a business development idea being implemented by the Port of Columbia, will embody those elements. It will be a new, ecologically friendly food-processing park that houses small- to medium-size artisan, organic and sustainable food-processing businesses. The project's goals are to create a cluster of like-minded businesses and jobs, to create a market for local crops to spark business startups, and to encourage tourism.

The Port of Columbia used surveys, research, one-on-one interviews and other methods to determine a viable market niche for Blue Mountain Station and to develop a 10-year business plan. Blue Mountain Station's business cluster concept has been featured in several newspapers and trade publications.

The Port of Columbia has already purchased the 28-acre site, which lies along Highway 12 west of Dayton. Funding for phase one of the development is available, and it likely will be completed within a year. Buildings will be constructed to LEED (Leadership in Energy and Environmental Design) certification standards—which is important for businesses interested in supporting green construction. City water is available, and resource-efficient storm and waste water systems are being explored.

Blue Mountain Station is using other unique tools to attract its tenants. The Port of Columbia is building relationships for marketing, distribution and access to cutting-edge technology through a very active advisory team and colleges and universities. It is working with Washington State University and Walla Walla Community College to offer up-to-date processing technologies.

Value-added agricultural businesses often need assistance with market research, developing marketing networks and finding cost-effective distribution channels. An umbrella marketing program, such as Blue Mountain Certified or Blue Mountain Fresh, will be implemented, and eco-labels—such as Salmon Safe, Food Alliance and organic—will be used.

Culinary tourism is very popular—people want to tour and taste at food businesses. The products of Blue Mountain Station businesses will be produced with the wholesale market in mind, but culinary tourism, product tasting and touring will also be accommodated. A retail building with a product development kitchen for testing, demonstrations, on-site sales and a public meeting space will be constructed. A fulfillment center where products can be assembled in boxes or baskets is being considered.

The Port of Columbia's biggest challenge will be attracting the first business to locate at Blue Mountain Station. Selling points are the general lack of this type of business cluster development and Blue Mountain Station's proximity to organically grown products and to the wine region. Blue Mountain Station has representatives attending natural and organic food trade shows to make initial contact with entrepreneurs who may be interested in locating at the park. The intention is to identify successful businesses that would expand into the northwest. Blue Mountain Station will also nurture local startup businesses.



Planners should also identify what customers want. The more a value-added product can be differentiated from others in meeting consumers' desired criteria, the more successful it is likely to be. In some cases, only the packaging, distribution or marketing may change. In other cases, the commodity is simply reconfigured—for example, pelletized or compressed. Value adding at the farm and then shipping the refined products may lessen shipping costs, and selling directly to the consumer may increase profit.

Customers' perception of flaws or concerns about systems, such as product safety, are opportunities for value adding and may lead to new products and delivery methods. Some consumers prefer to buy locally, and some are willing to pay a premium for items produced

with operational transparency and perceived environmental, social or economic benefits.

Certification by third-party organizations may promote good practices and can be a marketing tool. It is used in the current marketplace to infer or guarantee that certain practices associated with the production of crops and livestock are used. Labels resonate with consumers. Approximately 300 labels are in use, and eco-labeling is a growing trend.

Some labels, such as “fresh” and “local,” are not standardized at this time. “Fresh” foods sold in grocery stores often come from a thousand miles away. “Organic” commodities eventually lose their margin, but value-added products made with “organic” foods hold their value at retail. Some consumers are willing to pay a premium for “organic” products. Experts predict that production

of industrial organics may decrease the organic premium.

Determine the potential for production to ensure consistency of product quality and supply levels. Consistency is the key to profitability. Having a consistent supply of resources needed for production, a consistent quality of product, a consistent availability to the consumer and consistent service are crucial to maintaining market share. When pioneering products with no established markets, start small and build.

Value adding can be expensive and involves risk, but profit is the reward for taking that risk. The more stages of value adding that one business can do, the greater the percentage of the final retail price the business will retain and the more likely that it will be able to control the selling price.

Larger businesses may benefit



Voices of experience

Value-added experiences shared by entrepreneurs and other presenters

Several resource speakers shared insights with the study committee about the supportive environment that encourages entrepreneurs to remain or locate in a community. In deciding where to do business, entrepreneurs evaluate the

community on criteria that will affect their operations and their employees, such as:

- ▶ The availability of low-cost financing.
- ▶ A thriving agricultural community.
- ▶ An excellent school system.
- ▶ Proximity to higher education.
- ▶ No state income tax.
- ▶ A labor force available at attractive rates.
- ▶ Successful existing manufacturing businesses.

The resource speakers said this region's quality of life is a recruiting asset.

They also expressed some challenges to attracting businesses or employees and made specific suggestions to address those challenges:

- ▶ Encourage local entrepreneurial spirit.
- ▶ Develop a clear recruitment strategy and provide incentives for locating here. Many states offer incentives; Washington communities are not competitive. Dis-incentives include increases in business and operating taxes paid on gross sales, whether or not the



company makes a profit.

- ▶ Work with Walla Walla Community College, Blue Mountain Community College and Washington State University to provide curriculum that develops graduates with the technical expertise needed by businesses.
- ▶ Make recruitment a community affair. Involve all sectors, including government, banking, industry and agriculture.
- ▶ Establish primary and secondary education as the main attribute of the area. School quality is very important to

businesses looking to locate in a community and to businesses recruiting potential employees in a global market. They expect the school system to be not just good, but great.

- ▶ Solve transportation challenges. Customer access to the business is crucial. Obstacles, real or perceived, are detrimental to business. Air travel to and from this area is difficult for employees, customers and potential employees that a company may be trying to recruit. The rural setting adds to the perception of difficulty.

- ▶ Address complicated and confusing permitting processes, such as waste handling and land use.

- ▶ Create critical mass. Technical businesses like to locate near other businesses they know are successful. Successful manufacturing businesses, such as Key Technology and Nelson Irrigation, are already located here.

Information about the presenters to the study committee are located throughout the Findings section of this report.

from economy of scale—for example, being able to reduce expenses by purchasing supplies in larger quantities. Forming purchasing cooperatives may improve smaller businesses' ability to compete.

Know the competition. Do not compete. Differentiate. Develop a niche. Because value-added business is market-driven, successful entrepreneurs need to determine what consumers want and adapt to meet that demand. Consumer demands change constantly and rapidly, requiring businesses to regularly re-evaluate what will be needed. Smaller businesses may be able to adapt more quickly and in ways that larger businesses cannot.

Value-added products are unique, so few producers are involved at first and demand is elastic. The producer can affect the amount sold by price setting. Being a price setter, as opposed to a price taker, enables the development of a fair-value chain.

Profit draws competitors, and as competition grows, profit levels fall. As the market changes, entrepreneurs must adapt to retain market share.

Serving a special niche may protect businesses from competing,

predatory companies. Tim's Cascade Chips chose to develop a niche market and thereby avoided being targeted by a large national company that systematically removed all of its competition in the traditional chip market. The large national company purchased its competitors, dominated available retail space by paying extra and undercut product price until no competition remained.

Profit draws competitors, and as competition grows, profit levels fall. As the market changes, entrepreneurs must adapt to retain market share.

Every business needs a marketing plan and must continually create new marketing tools. Branding takes time and may or may not be beneficial in the rapidly changing value-added business environment.

Direct marketing is one way to interact with the customer and provides an opportunity to educate the consumer about value adding.

Develop relationships. Consider the feasibility of partnerships, clusters and geographic

differentiation. Entrepreneurs can use relationships to develop business ideas, to increase access to necessary resources and training, and to overcome the challenges of complex regulations. The positive effect a value-added business has on the community is directly proportional to the level at which the resources of other community businesses are utilized.

Economists, economic development proponents and business owners emphasize that it is easier to retain current businesses than to recruit new businesses to the region and that current businesses should be encouraged and supported concurrently with seeking new development opportunities.

People can help change a corporate culture. The owners of Shepherd's Grain were able to self-finance when starting the company, thanks in part to a beneficial relationship with ADM in Spokane, which mills their grain. ADM purchases the grain upon delivery to the elevator. ADM also sells Shepherd's Grain products under their umbrella. This relationship was unusual for ADM's corporate culture, but the local mill was willing to work with Shepherd's Grain, the partnership and products have proven successful, and Shepherd's Grain is now viewed by ADM as an asset.

Voice of experience: Tim's Cascade Chips

In 1986, the trend in the very competitive chip market was toward thin, tasteless, minimally spiced chips. Tim Kennedy developed a niche market, supplying home-style chips—called Tim's Cascade Chips. He sold the company in 1990 to a farmer cooperative that later bought Bird's Eye Foods. This co-op's goal is to own companies that allow member farmers to

produce value-added products.

During his career in the snack industry, Kennedy helped start snack plants in Russia, Estonia and China. Some of his foreign experiences uniquely demonstrate his messages to other value-added entrepreneurs:

► Market research and marketing are crucial. One of the biggest challenges in Russia was to develop a market in a popu-

lation that did not eat snack food.

► Business costs are often higher and different than anticipated. A plant in Estonia failed because the required "tips" (bribes) eliminated profitability. ► Proximity to the source of commodities is essential for sustainability. A plant in China failed because it was located too far from the source of potatoes.



RESOURCES

Soil and climate. *Terroir* is a French term used to associate special characteristics embodied in products with the region in which they are produced. Similar soil, weather conditions and farming techniques contribute to those unique qualities. Traditionally associated with growing grapes and the characteristics of the wine those grapes produce, *terroir* is used as a marketing tool to promote the uniqueness of products from a particular region.

There are two types of *terroir*. Cultural *terroir* is what people do to produce and affect the product as it goes to market. Physical *terroir* involves the geography, geology, pedology (soil) and climatology of the place it is produced.

Geographic and weather conditions vary significantly within the study region, creating at least four *terroirs* in the Walla Walla Valley. Topography and wind patterns create microclimates. The Walla Walla Valley has seven soil types: Palouse Loess (wind-deposited silt); Missoula Flood sediment (sandier, coarser-grained sediment and gravel); cobbles (stream gravel); bedrock (basalt); caliche calcium carbonate; volcanic ash from Mount Mazama in Oregon's Crater Lake; and ice-rafted rock carried here by icebergs.

Temperatures and rainfall in the

Walla Walla Valley vary with elevation, which ranges from 400 feet to 2,000 feet. Average growing season temperatures in the Walla Walla Valley are 60 to 68 degrees Fahrenheit. Diurnal temperature variations, long summer days and not-too-hot fall seasons are also local characteristics. The Columbia Basin is in the 0- to 10-inch minimum rainfall area. Walla Walla receives 10 to 20 inches; the Blue Mountains receive 20 to 30 inches.

Because different crops thrive in different conditions, there is little competition between them. For example, grapevines need good drainage, onions do best in flood plains that are low and cold and potentially subirrigated, and berries need subirrigation.

Available raw product. Many raw products are available locally or are easily accessed within the Pacific Northwest. For years milling companies and processing plants for vegetables such as asparagus, green peas and sugar beets operated in this region, but most have closed or moved.

Examples of local value adding currently under way are wine and cider production, packaging and marketing of fruit, continental marketing via Railex, hay processing and export, distilling spirits from wheat, and production of renewable fuels.

Bio-fuels production is currently popular because the government offers incentives.

There are opportunities for on-farm marketing and ecotourism. Superior packaging and semiprocessed or processed products are other options. Examples include confections, such as chocolate-covered nuts, cookies, nougats and brittles; cosmetic and culinary oils, which can be extracted from less-than-perfect fruit; nut butters; dried fruit products; nonalcoholic and alcoholic beverages; green pea products; and potted Christmas trees.

INFRASTRUCTURE

Labor capacity. Walla Walla County is recession-resistant: slow to go into and to come out of recession. At the time of the study, the local unemployment level was lower than the state average, but the recent economic downturn was difficult on businesses with fewer than 10 employees. Some layoffs are not cyclical (related to inventory reduction). According to a regional economist, the layoffs will likely become permanent, because the nature of the jobs will change—the jobs may be automated so that the employer does not have to repeat a layoff process or the jobs may be moved to another location to reduce labor costs.

A small county may experience more pressure during a recession



Voice of experience: Midlands Meander, South Africa

The Midlands Meander in KwaZulu Natal, South Africa, is an example of on-farm diversification. In 1982, when dairy farmers were barely surviving, farm wives in one region banded together and transformed their hobbies into businesses. Visitors are invited into the farm setting for personal experiences and to purchase value-added farm products, such as chocolates and specialty cheeses. Bed-and-breakfast establishments, spas and wellness

centers are also popular. Their non-farm products—such as pottery, wooden toys, weavings, leather goods and glasswork—are not perishable and are exportable. This has created jobs and has motivated artists and others who like the cultural environment to move there.

The endeavor has ballooned to a \$1 billion industry, and Midlands Meander has become a brand name.



than do larger counties. Columbia County's current unemployment issues are structural—when the Seneca asparagus-processing plant in Dayton closed, the jobs were permanently eliminated.

Available labor is a prime consideration for larger businesses locating to Walla Walla County. The workforce pool in the eastern portion of the county is smaller than in west Walla Walla County, which can pull labor from adjacent counties.

Walla Walla County statistics show that the rate of unemployment for teenagers is high, that people 25 to 40 years old are not staying in the region, and that the 65 and older age group is growing rapidly.

Columbia County has 200 to 350 agriculture workers seasonally. Total agriculture employment in Walla Walla County is 2,000 to 4,000 seasonally, because apples and grapes require significant manpower to produce. Apple production is the major source of agricultural employment in Walla Walla County.

Training. Walla Walla Community

College (WWCC) and Blue Mountain Community College (BMCC) are resources for owners and managers who want to expand or pursue new business ideas and for workers who want to increase their job skills. They collaborate with each other and with Oregon State University, Washington State University (WSU), Eastern Oregon University and Columbia Basin Community College. BMCC also works with grower groups and offers applicator certification. Boundaries are usually administrative or determined by a school's specialties. Online courses supplement on-site training.

Community colleges are committed to cost-effective training that moves students into employment as soon as possible. The community is not always aware of available training opportunities. In Washington, the Agriculture Center for Excellence, located on the WWCC campus, is trying to bridge the gap between the workforce and education.

WWCC offers a variety of options to support workforce development,

including degree and certificate programs. Customized contract training, on-site training and distance-learning programs are available through the WWCC Center for Business and Professional Development. WWCC emphasizes several training programs directly associated with the realm of agriculture, including training in agricultural business, agricultural sales, farm and ranch management, agricultural technology, horticulture, vineyard management, wine production, wine sales and promotion, and environmental technology.

BMCC weaves a business component into all of its agriculture certificate and degree programs. Offerings include programs in agricultural production, agricultural production of crops, agricultural production of livestock, agricultural business, diesel technology and a two-year, web-based agribusiness and management program. Value-added agricultural training is also offered for greenhouse management, fruit and vegetable processing, coffee roasting, and oil seed crushing.



The length of time needed to put a new program into place depends on how closely aligned it is with the college's current offerings and whether certification is needed. Colleges can usually respond to requests for workshops in a few weeks and can add certificate or degree programs within a matter of months.

WSU's wine science program works closely with both the grape and wine industries and partners in research with other universities in the U.S. and abroad. WSU offers two-year certificate programs, a bachelor of science degree, and advanced degrees in viticulture and enology, as well as a bachelor of science degree in wine business management, which is a major developed in collaboration with winery owners and operators, the United States Department of Agriculture (USDA),

distributors, and wine marketers.

Community colleges may help students access a variety of funding options, including small business loans, student financial assistance, opportunity grants (state funded), WorkFirst (federal or state funded), worker retraining (state funded), contract training, and job skills grants (a Washington support for startup training for new businesses). Race to the Top educational grants fund specific, high-growth, high-demand career preparation courses. Veterans receive educational benefits.

BMCC's Small Business Center provides on-demand business counseling. The Walla Walla Business Center was recently closed.

Facilities. The focus region for this study is served by three port districts: Port of Columbia, Port of Umatilla and Port of Walla Walla.

While the activities of the Port of Walla Walla are discussed here, the other two districts offer similar services and each has unique resources to assist businesses.

The Port of Walla Walla works to make it easy to do business in the county. Its site inventories include properties throughout the county, appropriately zoned and with infrastructure (such as water rights and buildings) available. Whether an existing facility is appropriate for reuse will depend on the site's water rights, how much water is available and needed, and the site's ability to handle waste. The Port assists each business with the permitting process as needed.

Buildings at the Walla Walla airport are suitable for light industry and small businesses. A warehouse district and urban renewal project are being planned, and an industrial park in the Wallula area offers additional possibilities. The availability of water and power at the Wallula business park is a major attraction for heavy industry.

The recruitment and retention policy of the Port of Walla Walla balances numerous factors, including wages, environmental impact, employee conditions and tax benefits. Business recruitment is highly competitive, and incentives often determine where the company locates. To attempt to reduce the risk that a business will use incentives and then move on, the Port prequalifies the business before they locate.

Voice of experience: Blue Mountain Cider Company

Every product must meet consumer demands. Value adding is expensive and changes constantly and rapidly, says Ron Brown, Blue Mountain Cider Company CEO. The producer either changes to meet the demands and absorbs the added expense or loses the market.

This cider-making enterprise began as a hobby shared by friends. They

took classes to learn more about cider production, conducted research and determined their target market.

As the business developed, additional investors have been involved, and the equipment necessary to deliver consumer-preferred product has been purchased and installed in facilities in Milton-Freewater.





“Voice of experience: Washington wine industry”

Washington state's grape and wine industry—production, marketing, retail and suppliers—is growing rapidly and dynamically. Currently, Washington ranks second to California and is recognized nationally and internationally for its high-quality wines. Compared with other U.S. wine-producing states, Washington's medal-garnering ratio is the highest. Most of the wines are priced in the medium to high range, which allows businesses to be profitable.

American Viticulture Areas (AVA) are

legally defined by the Alcohol and Tobacco Tax and Trade Bureau, an agency of the U.S. Treasury. Eleven AVAs are designated in the state of Washington. The Walla Walla appellation is part of the Columbia Basin AVA, a subset of the Columbia Valley viticulture area, which lies at 46 degrees north latitude. That latitude in France is between Burgundy and the Rhone Valley and just north of the Bordeaux region.

There is potential for small growers, with fewer than 100 acres, to enter the industry, because wines express regionality

and every parcel of land has potential. The marketing of premium wines emphasizes the place where the grapes were produced.

The goals of the Washington wine industry are to be recognized as an internationally known, premier wine region; to increase Washington's share to 10 percent of the domestic premium wine market by 2011; and to increase Washington's domestic wine production by 5 percent in each of the next five years.



Voice of experience: Don Carlo Vineyards and Winery

Tim and Lori Kennedy started Don Carlo Vineyards and Winery on a 12.5-acre parcel near Milton-Freewater. They often find themselves dealing with conflicting regulations because their business activities take place in both Oregon and Washington. As a member of the Oregon Wine Board, Tim is working with the Oregon Liquor Control agency to smooth the licensing regulations.

The wine incubator project at the Walla Walla airport is a partnership between the Port and the infant wineries that locate there. The project operates with the philosophy that both partners will share the risks and exposure of a new business. The Port provides the building shell, a concrete pad, climate control and a tasting room space. The winery buys the equipment, barrels and other supplies necessary to do business.

The wineries may build their business in the incubator for the first six years, after which they must graduate out. The incubator system helps keep talented people and young entrepreneurs in the community.

The Port of Walla Walla does not provide direct project funding and weighs the appropriateness of Port support for suggested projects, such as commercial kitchens, which may just as easily be offered by the private sector.

The Port of Columbia offers commercial buildings and parcels of land for sale or lease and is developing Blue Mountain Station as a supportive setting for small business clusters (see the Blue Mountain Station section on page 7).

The Port of Umatilla's Columbia River site features three terminals for handling containerized and bulk cargo: a full-service container-on-barge operation, a grain-loading facility, and a petroleum distribution complex. The Port owns parcels of industrial land in the communities of Hermiston, Umatilla and Pendleton.

Transportation. Distance from markets can be a challenge for this rural region. Highway, rail, water and air provide traditional transportation options, and several innovative modes of shipping are helping producers reach their customers.

Washington State Route 12 connects Walla Walla and Columbia counties to each other, to I-90, and to the Columbia and Snake River navigation systems. A project to improve Highway 12 is being accomplished in phases. Oregon Highway 11 provides access to I-84.

The Port of Columbia owns the Palouse River and Coulee City Railroad, a short line that travels from Dayton to Walla Walla, where it connects to the Union Pacific-owned line to Wallula and to a privately owned spur to Weston. At one time the rail line transported asparagus, but it is now mostly used to ship grain. Large shipments are necessary to make short-line rail systems cost-effective. The line borders the soon-to-be-developed Blue Mountain Station property in Dayton and will be a transportation option for businesses that locate there.

Railex is a relatively new regional asset. Located on the Port of Walla Walla property at Wallula, Railex provides speedy shipment of products that need controlled environments to markets on the east coast. A built-in system enables each car to be monitored for location and internal temperature. The train has Z designation—giving it priority over everything on rail except Amtrak—

and travels intact to New York. Eight million pounds of perishable product are shipped to Schenectady, N.Y., each week, but there has been low utilization of space on trains moving westward. Railex management is actively seeking product to be shipped in both directions. Customers have been able, in some cases, to share cars.

While the train itself may not qualify as a value-added business, Railex will attract businesses that use its service to locate nearby. Nurseries and similar companies in the Willamette and Skagit valleys are trucking their products to the Railex terminal to take advantage of east coast markets. This represents a paradigm shift—in the past, goods were shipped from rural eastern Washington to western Washington and Oregon for distribution.

Commercial air service is crucial in this region for access to customers, for access to state and national government, and for employee recruitment. The Walla Walla and Tri-Cities airports provide choices for flying out, but inbound flights to Walla Walla are problematic. Maintaining sufficient passenger numbers on Walla Walla flights is challenging. Horizon Airlines has reduced Walla Walla service from three to two flights each day. The Walla Walla airport is an essential service provider, so, if needed, federal subsidization could be invoked in order to maintain local service.



Voice of experience: Key Technology

Key Technology manufactures equipment for food processors throughout the world. The company was originally formed by the Key family in Milton-Freewater to produce equipment to remove stems and vines from the green peas grown in the region.

The driving force for agriculture and agriculture-related businesses to use technology is to achieve the following outcomes:

► Consistency of product. Use of low-skilled labor causes variation in product, and increased use of technology enables businesses to decrease the

need for low-skilled labor.

- Improved product quality.
- Improved up-time and reliability of all the company's equipment.
- Improved percentage of good product from a widely varying commodity resource.
- Reduction of energy costs.
- Improved shelf life of products at retail level (a large amount of product is discarded when selling fresh).
- Improved cleanliness and detection and removal of pathogens in the product.

Businesses that support agricultural product processing and their customers are located all over the world. Most are

privately owned, and most were started by high-energy entrepreneurs and are located near major agricultural areas. Many started near universities with engineering programs, and most are \$10 million to \$15 million operations.

Key Technology currently has business locations in Walla Walla, the Netherlands and Bend, Ore. Its Walla Walla location accounts for 60 percent of its business. Sales were approximately \$90 million in 2009, and Key and its employees spent nearly \$30 million (mainly in salaries and purchases) in the Walla Walla Valley that year.

REGULATIONS

Water. The water in this region, excluding Burbank, is part of one watershed. Water issues are important, complicated and sometimes contentious, because:

- ▶ Water is limited.
- ▶ Quantities available for use vary.
- ▶ Rights in the Walla Walla Watershed have been over-appropriated. Three sources of water rights are surface water, shallow gravel aquifer water and deep basalt aquifer water.
- ▶ Water laws differ between Washington and Oregon. Guidance from a watermaster or legal counsel may be needed to ascertain rights.
- ▶ In Washington, no new water rights are being issued; there is a waiting list.
- ▶ New shallow exempt wells in high-density areas in Washington are subject to limitations and metering; no industrial use is allowed.
- ▶ In the Oregon portion of the study area, surface and shallow rights are not likely to be issued. Rights for deep basalt water may be possible to obtain if the well is not within a five-mile radius of Milton-Freewater, where usage may affect the city's water supply.

Whether water is available for new uses is a matter of allocation and reallocation of resources.

In this region, water issues are being addressed innovatively through the efforts of the Walla Walla Watershed Management Partnership (WWWMP), which is becoming well-known for successful water collaborations.

Part of a unique, 10-year pilot program, WWWMP coordinates with water users, environmentalists, tribes and counties and shares governance of Water Resource Inventory Area 32 with the state Department of Ecology to improve flows for fish while providing greater flexibility for irrigators and other water users. Its jurisdiction

includes the watershed from the ridge tops to the Columbia River, the Walla Walla River, the Touchet River (a Walla Walla River tributary), Mill Creek, and the distributory basin in which numerous creeks begin and end in different streams. The region straddles the Oregon-Washington state line.

Some local water-related challenges are:

- ▶ Demand for water is increasing, because consumption by humans and the region's abundant agricultural resources is increasing.
- ▶ The Endangered Species Act changed how water issues are addressed. Fish are now a major focus.
- ▶ The Clean Water Act 303(d) means that water-quality attributes for all life forms are considered.
- ▶ This is a bi-state basin, and each state has different laws.
- ▶ Over-appropriation of water rights means that actual water available does not match paper rights, and in some cases junior water rights may be turned off.
- ▶ The region features a braided distributory river system.

Local water planning and banking agreements can be creative within the program to enhance flows by:

- ▶ Using existing water rights in a new place, from a new point of diversion or at a different time of year.
- ▶ Changing or using a new source of water or employing conjunctive use of groundwater and surface water.
- ▶ Engaging in groundwater storage (shallow aquifer recharge).
- ▶ Using less water voluntarily or simply agreeing not to use the water right without losing it under relinquishment.

Agricultural and industrial water rights differ. To change the use of water rights is a long process. Working with the Washington Department of Ecology to transfer, sell or change rights may take years. For a fee, the Walla Walla County

Conservancy Board will process changes in 8 to 12 months. The Oregon Water Resource Department has a similar process. When buying water rights, important considerations are whether written rights equal physical amounts available, whether rights have been relinquished or are no longer available for use, and whether the conveyances are appropriate for the anticipated use.

Water rights held by the City of Walla Walla may provide room for growth, but growth will depend not only on the legal right to use but also the physical availability of the water. Therefore, growth may require reallocating some agricultural water to municipal use. The purity of Walla Walla's waste water enables it to be committed as a water right.

Crops produced in Washington and Oregon differ because of the availability of water. Because Oregon irrigators have first access to water from the Walla Walla River, which originates in Oregon, many orchards and other crops requiring summer irrigation have been established. Washington irrigators have less access to summer surface water and have developed innovative water management and cropping patterns to mirror water availability.

The Confederated Tribes of the Umatilla Indian Reservation and the U.S. Army Corps of Engineers are considering a 30-mile pipeline to move Columbia River water to agriculture users predominantly in the Milton-Freewater area, in exchange for leaving more water in the Walla Walla River for salmon movement during the summer. Enhancing the water flow could enable additional economic development, recreational use of the rivers, and salmon-related tourism and fishing.

Public health. Complying with public health regulations can be expensive and time-consuming. To ensure that businesses operate in a safe, effective manner, regulatory processes involving food are complex and may involve multiple agencies at local, state and national levels. It can take six months to a year to obtain permits for land use, buildings, water and sewer and to develop regulation-compliant designs.

Oregon and Washington public health departments operate similarly. For any type of food system, the owner will deal with the county health department. The initial focus is on water and septic systems.

If the business works with dairy, retail eggs or custom slaughtering, state Department of Agriculture regulations apply. The USDA is involved if the business engages in interstate commerce. Other state agencies may also be involved. For example, the Department of Ecology may be involved if industrial waste systems are required.

In developing a commercial kitchen, it is necessary to adhere to water and waste regulations, the U.S. Food and Drug Administration code for kitchen design, and requirements for wholesale or retail use. If the business will be handling retail food, the county health department will assist with the designs. Separate

licenses are required for restaurants. County extension agents may help guide businesses through the regulatory processes. Washington State Department of Agriculture's *Small Farm & Direct Marketing Handbook, Regulations and Strategies for Farm Businesses in Washington State* may also be helpful.

Land use: Washington. Walla Walla and Columbia counties' comprehensive plans are required to comply with Washington's Growth Management Act. The act defines permitted uses for each zone. Zoning is focused on land use and is not tiered.

When an owner wants to develop property in Walla Walla County, Community Development Department staff members—building inspectors and planners—work with the owner or a representative of the owner—such as an engineer, surveyor, building contractor or architect—to determine how the proposed development fits the zoning criteria. Together they review the options available.

The development may be a permitted use, may require a conditional use permit or may not be allowed without a zone change. If the desired use does not fit the zoning criteria, the owner may choose to modify the plan to comply with zoning criteria or propose an amendment to change the Walla Walla County's Comprehensive Plan or

development code. Time and process requirements will vary accordingly.

Walla Walla County's Comprehensive Plan is reviewed each year through a formal docketing process, and citizens may propose amendments to the plan, regardless of whether or not they own property in the area affected by the proposed change. This is only for areawide amendments. Property-specific changes can only be requested by the property owner. Typically, public workshops are held before the public hearings.

Zoning is important to entrepreneurs. Growing crops is an approved use in almost all zones of Walla Walla County. Accessory uses that meet certain criteria may also be allowed in primary agriculture zones. Manufacturing is not allowed in all zones, and value-added agricultural businesses may be considered manufacturing. Unlike Umatilla County, in Walla Walla County there is no minimum acreage requirement for wineries; wineries can be permitted without any growing acres.

Land use: Oregon. Oregon has had comprehensive, statewide land-use planning laws for 35 years. They were originated by farmers intending to protect farmland from urban encroachment. Many of the land-use laws are made by the state legislature, and, as a result, there are lists of what uses *are* allowed and what

Voice of experience: Shepherd's Grain

Shepherd's Grain was started in 1999 by Fred Fleming and Karl Kupers, growers who decided to de-commodify their wheat by marketing high-quality flour directly to the consumer. They combine traditional farming skills with today's technology, practicing soil and water conservation, minimizing the use of

fuel and chemicals, providing wildlife habitat, and creating a fair-value chain by telling the story of what they do. They worked with Washington State University to evaluate all costs, from producer to market, in order to establish a profitable rate of return for everyone involved.

They produce three types of

high-quality flour—high-gluten, whole-wheat and low-gluten flour—from hard red spring wheat and hard red winter wheat, and they market them under the Shepherd's Grain trademark.

Fleming and Kupers hope that Shepherd's Grain is a legacy that will enable their families to return to the farm.



the counties *may* allow. The county planners work with the public to interpret the rules but are constrained by state law.

Protection extends to farming but not necessarily to value-added businesses. On a case-by-case basis, the county must determine allowable uses. Goal 3 protects the farm ground, Goal 9 ensures that the land is managed to protect economic development, and Goal 14 addresses urbanization and the need for businesses that use large amounts of water and generate significant wastewater to be located in urban areas. This makes some urban-scale enterprises inappropriate for lands that are zoned for Exclusive Farm Use (EFU). Cities have more flexibility with planning issues than do counties.

Land-use permits on farm ground (EFU zoning) are based on the type of use and the type of soil. Wineries and vineyards are allowed uses, and the Oregon legislature recently refined the scale and defined what can be included at a winery. The permit may be for a winery alone, or it may be permitted as commercial use in conjunction with farm use. Many other types of value-added businesses may be permitted for lands under county jurisdiction. A business could also be located inside city limits.

EFU zones require an 80-acre minimum parcel size. Umatilla County is considering whether to make application to the state to reduce the minimum parcel size so that enterprises may go below the 80-acre lot size.

Licensing. Because value-added businesses are often unique, regulatory agencies may not understand the proposed processes and whether regulations currently in place are appropriate. At times, the value-added

business may be required to comply with regulations developed for other industries.

State business licenses are required. Transacting business in more than one state requires compliance with each state's laws, as well as federal regulations.

Wineries must be licensed to produce and sell alcoholic beverages. Every state requires a permit to sell wine, and there is no continuity in the working relationships between states.

FUNDING

As for every business, funding is crucial for value-added enterprises. Funding experts offer several very specific messages:

- ▶ Do not underestimate the capital needed to start and maintain a value-added business. Business costs are often higher than expected. Plan to subsidize the business as it develops.
- ▶ It can be difficult to get a loan for a new value-added venture when there is no similar business that the lender can use for comparison.
- ▶ Money is available for businesses with sound business plans.
- ▶ Build a team of professionals—an accountant, attorney, bookkeeper and financial advisor—who have knowledge of the industry and can provide support as the business develops.

When seeking funding for a new business or project, an entrepreneur will be asked to demonstrate planning and capacity. Following are types of information a lender may require:

- ▶ A business plan that describes the business, explains how it can be differentiated from other businesses, identifies the target market and describes how it will be reached, outlines job creation and retention, and describes the management's experience.

- ▶ A capital plan itemizing and explaining anticipated costs and capital purchases necessary for startup and 12 months of operation.

- ▶ Investment of 35 to 45 percent of the cash needed. In order to set the project up for long-term success, equity contributions can come from business partners, as long as they are not loans. The higher the loan-to-cost ratio of a project, the greater the chance that the project will fail.

- ▶ A 12- to 24-month cash flow projection with realistic expectations of revenue, expenses, ongoing capital purchases and loan payments should demonstrate how the bank will be repaid and summarize assumptions used to develop the projections.

- ▶ An inventory of the owner's personal financial health, including a credit report and score and a complete personal and household budget to demonstrate viability without funding from the business for at least the first 12 months.

A variety of funding options may be available for the enterprise, including friends and family, bank loans, venture capital, angel investors, and grants. Ports have the ability to issue revenue bonds. Columbia County is eligible to use the Columbia Regional Economic Development Trust, a fund that offers small business loans. The Port of Columbia facilitates access to this fund. Creative funding, such as developing strategic partnerships and negotiating with customers, is also a possibility. Shepherd's Grain, for example, was able to self-fund because they benefitted from a relationship with ADM that lowered their startup expenses.

Community banks are locally owned and operated and offer loan and deposit and, in some cases, brokerage and wealth management services. Their business is relationship-based, and their clients benefit from the bank's understanding of the local

economy, climate, industry, traditions and buying patterns that will affect the new business. They can offer unique or customized loans to fit individual borrower and project needs. The banks can also access various lending programs. Most community bank loans are less than \$2 million.

Community banks are more likely than larger banks to invest in new businesses, especially smaller projects that limit their risk. Community banks generally do not provide working capital or equity investment. Each bank's level of risk tolerance is set by its board of directors. All banks operate with the understanding that the business or business owner will repay the loan and cover any loss.

Business loan options may include lines of credit to fund short-term expenses; term loans to fund fixed assets, equipment and some startup costs; Small Business Administration programs to finance startup costs and equipment or bricks and mortar; Farm Service Agency loan guarantees for agriculture production; and USDA Rural Development Loans for most projects except agriculture production.

When considering a loan, banks look for the business owner's ability to keep going. Guarantors or collateral are usually required to secure loans. Loan covenants outlining the minimum and maximum financial boundaries expected of the business are frequently used.

Availability of credit is influenced

by current economics, by the Federal Reserve's OMC monetary policy and by bank examiners' enforcement of risk-management practices.

The end of a recession can be a good time to start a business with good ideas and sound business plans. Borrowing rates and business costs are likely to be low, though credit availability may shrink. Labor is often available, and customer expectations may be lower.

Funding is available for the right startup businesses. Not all banks support agricultural business, because agriculture often carries high risks and is a specialized industry.

Venture capitalists follow new trends. They tend not to be attracted to production agriculture, but they may invest in the manufacturing





Voice of experience: Thundering Hooves

The Huesby family practices value-added agriculture through organic farming and livestock production, direct marketing, and as a U.S. Department of Agriculture-certified meat processor.

The company is currently replicating a modular meat-processing system for use by others. With the closure of slaughterhouses, Hawaiian producers are sending animals to the mainland for processing and cryo-packaging. The processed prod-

uct is then returned to the islands for sale. The Huesbys' modular system will enable producers to process their meat in Hawaii, improving their profit margin and providing a fresher product to local consumers.

Joel Huesby noted that small processing plants can be easier to manage and may have better accountability and quality control than large plants.

side. Entrepreneurs should weigh the pros and cons of involving venture capital investment in their companies. Venture capital funding requires accountability to the investors. Without venture capital investment, the entrepreneur can control the company's destiny. Full ownership of the company might be more personally rewarding than having partners and owning a fraction of a larger business. The availability of investment capital has diminished in recent years. Geographic remoteness can create challenges for attracting venture capital financing.

Angel investors are more amenable to agriculture. These individuals are willing to invest \$25,000 to \$100,000 in new ideas for fun, to make money and to give back to the community. Often, angel investors look favorably at projects in communities that encourage entrepreneurial spirit. Blue Mountain Station may facilitate connections between businesses and angel investors.

Companies owned by entrepreneurs who focus on sustainable, profitable growth and creating value (as opposed to creating wealth) are valued by investors and strategic buyers.

Investors look at the chemistry of a new business: entrepreneurial spirit, experience in the industry or in managing a business, market research, and whether the market has been tested. Whether or not they intend to invest, banks, venture capitalists and angel investors often meet with young companies to listen and offer advice. This interaction helps the company, builds the relationship and enables the potential investor to watch the company in its early development.

How much of the potential business should be in place before talking with potential funders depends on the stage of development and how much money is needed—the

larger the funding request, the greater number of details that should be in place. The entrepreneur should be able to point out gaps and offer plans to close them.

The trend is for companies not to over-plan or over-raise funds to launch the product. Research should be adequate to ensure that there is a market and that the product fits the market. It is prudent to be a fast follower, as opposed to being on the leading edge of production. The product will likely take longer to develop and establish than anticipated.

From an investor's point of view, the most important criteria for an attractive investment are that the company has good people and a positive culture—that everyone associated with the company understands and supports the business.

Standards of measurement for investment in a business have changed from inputs to outputs—from the number of employees, amount of venture capital raised, number of products and number of partners to the number of customers, revenue and potential profit.

MARKETING

Marketing has significant effect on the success of a value-added business. Promoting the product increases sales and also provides feedback that the entrepreneur can use to continue to develop the product being sold.

Relationships are crucial. Personal, passionate marketing engages potential consumers, tells the business' story and why it is important to use a product, and creates demand. Many consumers are looking for healthy products that have been responsibly produced, and a personal approach builds trust and rekindles the romance of feeling connected with the land.

Self-marketing reduces business

expenses, but hiring a distributor to ensure market placement and to ensure that the vendor is consistently supplied with the product may optimize market position, avoid loss of shelf space and increase sales. This is particularly true with the promotion of alcoholic beverages—it is hard for small companies to compete with larger companies.

Developing a good relationship and working closely with the distributor will help the entrepreneur determine what the consumer wants. Distributors can tell the story behind the value-added business to help establish a connection between consumer and business.

On-premise sales lead to off-premise sales. Retailing out of tasting rooms (state law regulates how many locations may be maintained) allows the producer to sell products that are not produced at sufficient levels to maintain market space in other outlets. A number of local wineries have tasting rooms in western Washington.

Buying local products has become popular. Certifications by third-party evaluators such as Salmon Safe, Food Alliance and Global Gap may improve market position. They require the producer to meet specific criteria, such as water, chemical and worker safety. Third-party certification increases producer costs, but some consumers are willing to pay a premium for foods that meet these standards.

Packaging, advertising, brochures and websites are proven promotional tools, but new tools maintain consumer awareness. Examples include social networking, recipe cards in stores, table tents where the products are served, T-shirts, encouraging chefs to use the product in cooking and using such phrases as "gluten-free" to capture the audience.



Voice of experience: Ali`i Kula Lavender Farm

Ali`i Kula Lavender Farm (AKLF) is a 13.5-acre farm located on the steep slopes of Maui's Mount Haleakala in Hawaii. Owners Ali`i Chang and Lani Weigert have divided the management tasks between them—he farms, and she markets.

The farm harvests lavender by hand. Some is sold fresh, some is distilled for its oil and some is sent to vendors who create value-added products. In addition to on-farm sales, the product lines are marketed via the Internet—which accounts for 15 percent of their business—and wholesale.

AKLF has relied upon others for technical support, product development and marketing:

- ▶ The farm had technical guidance from and found resources through existing businesses in the Pacific Northwest.

- ▶ Lack of knowledge about value adding and a lack of money for investment in things such as certified kitchens led to finding others to produce for their private label. By doing so, they avoided the need to purchase equipment and create recipes. An entire list of products has been developed through their partnerships. Culinary, bath and aromatherapy lines—with 75 products in all—account for 82 percent of AKLF's revenue. As the farm's business strengthens, so do the businesses associated with them. As the economy slowed, they worked together to grow, and the effort has helped them all.

- ▶ Limited marketing funds and a deeply ingrained understanding of their Hawaiian culture resulted in a creative marketing plan. In the Hawaiian culture, grandparents hold places of highest honor and their opinions are respected.

With that in mind, 300 senior citizens were invited to the farm and introduced to the products. A very influential network grew from this group's word-of-mouth advertising.

The owners of AKLF have based their entire business model on "aloha," Hawaii's cultural values of love, honesty, friendship, responsibility and stewardship. Training ensures that the employees understand the aloha philosophy that is the owners' standard for meeting guests' expectations.

Most visitors (99.5 percent) travel to the farm as individuals rather than in tour groups. AKLF respects the fact that tour buses would be unfriendly to the rural community.

AKLF is now also growing olive trees, with its third harvest in 2009, and is planning to purchase an olive press.

AGRITOURISM

Tourism provides jobs and economic benefits for the community and provides opportunities for visitors to learn about the area. Tourism is increasingly important to the study region. Between 1991 and 2008, tourism revenues in Walla Walla County grew from \$40 million to \$85 million. In 2009, \$6 million in taxes was generated by tourism.

Agriculture and tourism are being linked more frequently. In the past year, Washington State Tourism and the Washington Department of Agriculture have been holding seminars throughout the state to bring together tourism entities and producers.

There are many definitions of agritourism. Tourism Walla Walla's working definition is: "Agricultural tourism allows farm operators to increase income through a variety of service initiatives, such as farm demonstrations, harvest festivals, farm vacations, school group tours, hay rides, pick-your-own-crop harvests, bed and breakfasts, campgrounds, crop mazes, and a host of other products and services."

The wine industry, successful incubator programs and promotions of the area as an artistic and cultural hub have sparked local agritourism. Zoning along Washington Highway 12 has encouraged agritourism uses.

Visitors want experiences. Those already available locally are you-pick produce, farm stands, farmers' markets, birding, horseback riding, cheese making, corn mazes, winery tours, winemaker dinners and chef's tables. Other opportunities may include farm, barn or historic home tours; working on a farm or in a vineyard; crushing grapes; cooking classes; and shopping at a farmers' market with a chef to learn how to select ingredients. There also may be more opportunities to

promote the Walla Walla Sweet Onion, Washington's state vegetable.

To be successful, such programs need champions and committed participants. Tourism Walla Walla promotes Community Council's target region and partners with groups in other areas.

Community Supported Agriculture programs enable customers to receive a share of a farm's harvest in exchange for advance payment. Several farms in the region offer this program. Local citizens enjoy the benefit of fresh food while supporting local agriculture.

The Farmer-Chef Connections trend is growing, linking those who are committed to expanding and strengthening local, seasonal and sustainable food networks. While restaurants may have been using local produce for some time, they are just beginning to identify the farm from which it comes as part of their experiential marketing. Telling the customer the story is not yet consistently practiced.

Regional products have built up the Walla Walla Valley's reputation, but a brand has not yet been developed. Tourism Walla Walla is willing to market a brand, but it indicates that a brand must be developed and enthusiastically supported by the community to be successful.

COUNTY GOVERNMENT AND ECONOMIC DEVELOPMENT

Umatilla County's commissioners have recognized that agriculture is very important. They seek opportunities for the agriculture community, because that also benefits the population and tax base. They are currently promoting go-below changes to the state plan that would allow zoning in 40-acre lots.

Ordinances, such as the pest control ordinance, have been

established and enforced to protect agriculture. The county is supportive of research on cereal grain and oil seed production. The county also invests in research for new crops, such as camelina, the oil seed plant.

Umatilla County funds its Economic Development Department with lottery dollars, which can only be used for economic development. The county, the Confederated Tribes of the Umatilla Indian Reservation (CTUIR), the Port of Umatilla, cities, chambers of commerce and community development corporations are working collaboratively on economic development issues. The county helps in administration and grant seeking, as well as lobbying for and identifying new possibilities.

Walla Walla County commissioners allow entrepreneurs to initiate zoning and other regulations related to value-added agricultural opportunities. The Port of Walla Walla is the lead economic development agency for Walla Walla County.

Neither Walla Walla County nor Milton-Freewater is in a federal Economic Development Administration (EDA)-recognized district. Being declared an EDA district offers the opportunity for federal development funding. To be part of a district that crosses state boundaries would require an intergovernmental agreement. Working with state regulations would be a hurdle, according to commissioners, but would not be insurmountable because they often work together. A Washington-Oregon group composed of tribal, state, county and city governments and irrigators is seeking federal funding for a water recharge project that benefits fish. The government lead is the CTUIR.

Conclusions

Conclusions express the value judgments of the committee and are based on the findings.

- 1.** There exists a base of knowledge about crops no longer processed in the area; entrepreneurial market research should include a review of past and present agriculture products.
- 2.** It is important to know and understand your product and how it fits in the market. Market research at startup, followed by frequent reevaluation and adaptation, are necessary for a value-added business to gauge demand and to maintain market share.
- 3.** Careful market research, a well-organized marketing plan, a sound business plan and marketing tools are necessary for a value-added business to be successful.
- 4.** People should move rapidly to execute a sound business plan. Do not get lost in the planning stage.
- 5.** Marketing has a significant effect on the success of value-added businesses. Products that are third-party certified, eco-labeled, branded or locally produced appeal to some buyers. Such marketing may increase direct and indirect marketing opportunities and can result in a premium paid to the producer. It is important to verify the validity of third-party certifiers.
- 6.** Markets for some locally grown or produced products are increasing.
- 7.** Value-added agricultural products could benefit from establishing a regional brand. The region is recognized for the high quality of its products, such as onions and wine.
- 8.** Marketing of local products should capitalize on that name recognition, and the community should enthusiastically support branding efforts.
- 9.** It is easier to retain existing businesses than to attract new businesses to the region.
- 10.** The wide variety of soils, climates and elevations in this region will support a variety of crops.
- 11.** Many raw products—available locally or easily accessed in the Pacific Northwest—offer opportunities for value adding.
- 12.** Each of the communities in the study area reacts differently to recession and other outside economic situations.
- 13.** The number and variety of colleges in the study area provides good employee training opportunities for businesses that want to develop in the area.
- 14.** The three port districts in the study area provide environments conducive to business by offering such necessities as facilities and incubators.
- 15.** Rail, truck and barge transportation are readily available for moving products to major markets. Railex expands the geographic area in which this region's products can be competitive, and empty westbound Railex cars offer opportunities for importing resources. Regional transportation, particularly access by passenger airlines, is a perceived problem.
- 16.** Water supply in the region is limited, so the availability, allocation and purpose of water usage are crucial components in local value-added business planning.
- 17.** Water issues are being innovatively addressed in the Walla Walla region.
- 18.** Zoning and development regulations are crucial components in value-added business planning, because property development must comply with each county's comprehensive plan and zoning criteria, which are multifaceted and can be confusing.
- 19.** A variety of business-financing opportunities are available in the region. Working with local banks that are familiar with agriculture may be more helpful than working with larger banks.
- 20.** Capital needs required to start and maintain a value-added business may be much greater than anticipated.
- 21.** Agriculture and tourism are frequently linked. Agritourism activities are in demand because visitors appreciate agriculture-related experiences. Capitalizing on agritourism opportunities can provide jobs and economic benefits for our region's communities. For agritourism to be successful, programs need champions and committed participants.
- 22.** Developing, building and maintaining relationships with consumers, distributors and others is crucial to successful



marketing for value-added agriculture businesses.

- 22.** Distributors can enhance distribution but can also add major costs and control product design.
- 23.** Local restaurants are promoting the use of locally produced food with increasing frequency.
- 24.** Because value-added businesses and their products are regulated by multiple agencies and different departments within those agencies, it can be challenging and time-consuming to ensure all requirements have been met.
- 25.** County governments recognize the importance of agriculture to our communities.
- 26.** The governments in the study area deal with economic development challenges and opportunities differently. Umatilla County has a dedicated economic development department.
- 27.** Walla Walla, Columbia and Umatilla counties may benefit from forming a federal Economic Development Administration district.
- 28.** Communities that have innovative and entrepreneurial environments attract other successful businesses.

Recommendations

Recommendations are the committee's specific suggestions for change, based on the findings and conclusions.

- 1.** Promote awareness of the region's historical crops and processing industry, using sources such as Joe J. Locati's, *The Horticultural Heritage of Walla Walla County, 1818–1997*.
- 2.** Workshops to teach grant writing, business plan development and market research skills should be offered in the region. Explore opportunities to offer workshops and ongoing business advisory services through a variety of organizations, such as the chambers of commerce, WSU and OSU extension services, and the Kaufmann Foundation.
- 3.** Work with agencies to develop a generic checklist of steps for entrepreneurs to use in planning value-added businesses.
- 4.** Educate businesses about third-party certification and the potential for an associated price premium.
- 5.** Evaluate the interest in and need for a Walla Walla regional marketing brand, such as "Walla Walla, Twice as Nice."
- 6.** Identify or create the organization(s) that will take the lead in facilitating the development of local value-added agricultural businesses.
- 7.** Investigate the potential for importing by Railbox products that could benefit value-added businesses.
- 8.** Through printed materials or an awareness campaign, correct the perception that this region is handicapped by transportation challenges.
- 9.** Evaluate the benefit of a unified economic development entity for Walla Walla County.
- 10.** Encourage Walla Walla, Columbia and Umatilla counties to evaluate the benefits of becoming a federal Economic Development Administration district.
- 11.** Encourage and recruit to the area people and businesses that will contribute to an environment of creativity and innovation.

2009–2010 study resource speakers

- ▶ Ron Brown, Blue Mountain Cider Company
- ▶ David Camp, Key Technology, Inc.
- ▶ Harvey Crowder, Walla Walla County Health Department
- ▶ Michael Davidson, Tourism Walla Walla
- ▶ Jennie Dickinson, Port of Columbia
- ▶ Fred Fleming, Shepherd's Grain
- ▶ Tom Glover, Walla Walla County Community Development Department
- ▶ Bill Hansell, Umatilla County Commissioner
- ▶ Thomas Henick-Kling, Washington State University viticulture and enology program
- ▶ Art Hill, Blue Mountain Community College Small Business Development Center
- ▶ Joel Huesby, Thundering Hooves
- ▶ Elizabeth Humphrey, Baker Boyer Bank
- ▶ Clive Kaiser, Oregon State University Extension Service
- ▶ Tim Kennedy, Don Carlo Vineyards and Winery
- ▶ Arum Kone, Employment Security Department
- ▶ Jim Kuntz, Port of Walla Walla
- ▶ Deborah Lee, Blue Mountain Community College, Milton-Freewater
- ▶ Gregg Loney, Walla Walla County Commissioner
- ▶ Tamra Mabbot, Umatilla County Department of Land Use Planning
- ▶ Donald Miller, Walla Walla Community College
- ▶ Kevin Pogue, Whitman College
- ▶ Cathy Schaeffer, Walla Walla Watershed Management Partnership
- ▶ Tom Simpson, Northwest Venture Associates
- ▶ Bruce Sorte, Oregon State University
- ▶ Steven VanAusdle, Walla Walla Community College
- ▶ Lani Weigert, Ali'i Kula Lavender Farm

Supplemental resources

BOOKS

- ▶ Washington State Department of Agriculture *Small Farm & Direct Marketing Handbook, Regulations and Strategies for Farm Businesses in Washington State*, www.agr.wa.gov/marketing/smallfarm/directmarketinghandbook.aspx.
- ▶ *The Local Food and Farm Guide for Umatilla, Morrow, Gilliam and Wheeler Counties (Oregon)*, published by Columbia Blue Mountain RC&D Council, Pendleton, Ore., June 2010. Aarnold2@uoregon.edu.

ARTICLES

- ▶ Engledow, Jill, "The Lavender Story," *Edible Hawaiian Islands*, Winter 2010, www.ediblehawaiianislands.com.
- ▶ Hall, Lisa Shara, "Walla Walla Joins Sustainable Agriculture Movement," *Wine Business Monthly*, Aug. 15, 2008.
- ▶ Muhlke, Christine, "Moveable Beast," *New York Times*, May 17, 2010, www.nytimes.com/2010/05/23/magazine/23food-t-000.html.
- ▶ Nigro, Dana, "Oregon Launches State-wide Certification for Sustainable Wine," *Wine Spectator*, April 22, 2009, www.winespectator.com.
- ▶ "Turn Tasting Room Visits into Sales," *Good Fruit Grower Magazine*, Feb. 1, 2010, Vol. 61, No. 3.
- ▶ "Married to the Business," *Money Magazine*, February 2008, page 29.
- ▶ *Study: Potential for Wine Industry Development in the Walla Walla Appellation: An Economic and Land Use Analysis of the Oregon Side*, Umatilla County Planning Department, Aug. 15, 2005.
- ▶ Demeter USA—About Biodynamic® Agriculture, www.demeter-usa.org/about-biodynamic-agriculture.
- ▶ Food Alliance, <http://foodalliance.org/information-for/for-farmers-ranchers>.
- ▶ Food Innovation Center in Oregon, <http://fic.oregonstate.edu>.
- ▶ Greener Choices, www.greenerchoices.org/eco-labels.
- ▶ Joe J. Locati papers, <http://nwwda-db.wsulibs.wsu.edu/findaid/ark:/80444/xv36268>.
- ▶ The Kaufmann Foundation, www.buildstrongeramerica.com.
- ▶ Midlands Meander, www.midlandsmeander.co.za.
- ▶ LIVE (Low Input Viticulture & Enology, Inc.), www.liveinc.org.
- ▶ Oregon Certified Sustainable Wine, <http://ocsw.org/certification>.
- ▶ Oregon Employment Department, www.qualityinfo.org/olmisj/ArticleReader?itemid=00006612.
- ▶ Oregon State University's Rural Studies Program, <http://arec.oregonstate.edu/ruralstudies>.
- ▶ Salmon Safe, www.salmonsafe.org.
- ▶ Small Business Association, www.sba.gov.
- ▶ Sustainable Connections, www.sustainableconnections.org.
- ▶ Umatilla County Land Use Planning Department, www.co.umatilla.or.us/planning/planning_ordinances.html.
- ▶ Walla Walla County's Comprehensive Plan, rural and agricultural lands, www.co.walla-walla.wa.us/departments/COMDEV/docs/06_ch06_RurResLands_11910sd.pdf.
- ▶ Wine Business.com, www.winebusiness.com.

WEBSITE RESOURCES

- ▶ Ali'i Kula Lavender Farm, www.aklmaui.com.
- ▶ Binford, North Dakota, www.gobinford.com.
- ▶ Columbia-Blue Mountain Resource Conservation & Development, www.pacrimrcd.org.

CONTACT INFORMATION

- ▶ Walla Walla and Columbia County water rights—Washington State Department of Ecology, 509-329-3400.
- ▶ Umatilla County water rights—Oregon Water Resources Department, Tony Justus, watermaster, 541-278-5456.
- ▶ Walla Walla County Conservancy Board, Alan Kottwitz, 509-547-9312.



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The mission of the Community Council is to foster a civic culture that inspires a citizen-driven, consensus-based, problem-solving process to prepare the greater Walla Walla area for future growth, change and challenges to enhance the quality of life for everyone. Community Council studies may be downloaded at www.wwcommunitycouncil.org.