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Tools for Community Self-determination

EXECUTIVE SUMMARY ONLY

Ohio's Food Systems – Farms At The Heart Of It All

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Executive Summary

Ohio's Food Systems — Farms at the Heart of it All

KEY FINDINGS:

- 1. Clusters of community-based food businesses are forming across Ohio. These clusters create jobs, but do even more; they create collaborative groups of new business owners.**
- 2. Food is a major industry in Ohio, yet the industry has suffered some erosion in recent years, despite Ohio's rising personal income and increased food consumption.**
- 3. The most sustained rapid growth in farm sales involves direct food sales from farmers to consumers.**
- 4. The key "lever" driving change in the Ohio food system is commerce based on relationships of mutual trust, through clusters of firms that grow in concert with each other to create both resilience and stability for Ohio.**
- 5. Emergent business networks are often led by people who hold significant experience in low-income communities or developing nations.**
- 6. The distinction between for-profit and nonprofit enterprise is becoming less rigid; both types of firms seek subsidies.**
- 7. Public bodies hold a clear responsibility to support the growth of local-foods business clusters by constructing supportive infrastructure.**
- 8. Ohio agriculture (and related public policy) has long been focused on distant markets, rather than state consumers, to the detriment of the state economy.**
- 9. \$30 billion flows away from Ohio each year due to the structure of the farm and food economy; recapturing these dollars would create significant economic opportunities.**
- 10. The prevailing food system is deeply dependent upon fossil fuels, which may become prohibitively expensive, creating exceptional vulnerability for the Ohio food supply.**

Executive Summary

Clusters of community-based food businesses are forming across Ohio. Complementing each other as they grow, they create mutually supportive economic opportunities, build financial resilience, and strengthen the state's social fabric.

These clusters create jobs but accomplish even more — they build new business ownership opportunities. Emerging business owners who invest in keeping the state strong, and who form supportive business and social networks, will help the state economy cohere, while flexibly adapting for an uncertain future.

Interviews completed for this report have tracked the emergence of hundreds of new businesses, tens of millions of Ohio food sales, and thousands of jobs. It only makes sense to invest in strengthening this emergent sector.

Business clusters have been effective for Ohio

Indeed, Ohio firms have made effective clusters before.¹ Northwest Ohio has long featured a cluster of firms that revolved around the region's ideal conditions for tomato production, combined with the former presence of cheap natural gas, which supported an extensive season-extending greenhouse industry. Further, the Northeastern Ohio region is reclaiming its identity as a cluster of energy-related technology firms.

Yet the Ohio Department of Development also tracks some erosion in the prevailing state food industry. "After adjusting for inflation, the volume of [food] industry goods produced in 2005 was at its lowest level since 1997," a department fact sheet reads. Employment fell 6% in the years 2001-2006, and is forecast to fall another 1% by 2014.²

Moreover, industry analysts point out that the prevailing "just-in-time" food delivery system is increasingly vulnerable to disruptions in the supply of oil, weather crisis, or breakdowns in communications. "American grocery shelves only have three days of food available at any given time, and American citizens only have five days of food stored in their homes," a *Forbes* magazine reporter learned.³

Food is a major industry, with more than \$60 billion in sales

This is of deep concern, because food is a major industry in Ohio. In addition to the 75,000 farms that work the land, selling some \$7 billion of products each year, the related food industry directly accounts for 13% of the state's business. Overall sales for food and beverage manufacturers totaled \$25 billion in 2006.⁴ Farm input industries sell over \$5 billion of products so farmers can farm. Retail food businesses sell an estimated \$12 billion of food, while dining establishments garner \$20 billion in sales.⁵ The 594,566 employees who work in 29,584 food-related businesses (not counting farmers) earn \$10.5 billion of personal income each year, 6% of the state's payroll.⁶

Important food industries call Ohio home, including Bob Evans Farms, Chiquita Brands International, Kroger, Lancaster Colony, JM Smucker, and Wendy's International. Among these are global industry leaders: the Campbell's Soup factory in Napoleon is the largest in the world, and the Heinz runs the largest ketchup factory on the globe in Fremont. General Mills operates the world's largest pizza plant in Wellston.

Farmers and consumers are disconnected

The weakening of food industry is curious in a farm state like Ohio, where personal income has increased 70%, and food consumption has risen 32%, over the past four decades. It is difficult to explain how the state's food industries could be declining in the face of such growth. This suggests a disconnect between producers and consumers, one that is weakening the overall food industry.

Moreover, the most rapid growth in the Ohio food sector involves direct sales from farmers to consumers. These increased 70% from 1992 to 2007, or 5% per year, to a total of \$54 million. The value of these direct sales ranks right between tomatoes and sweet corn in the state farm economy — if this were a single product, it would count as the 13th-ranked farm commodity. Although direct sales make up only 0.8% of commodity sales, this is twice the national average, making Ohio a leader. During the same period, commodity sales fluctuated widely.

A hunger for connection

This rapid growth in direct sales reflects a deep hunger that is emerging across the U.S., as consumers switch to buying food from local farms they know and trust. Many farmers, in turn, want to know the people who consume the foods they produce.

This desire for relationships of trust also fuels emerging food businesses clusters. Repeatedly, interviews with leading practitioners in the state found that most viewed relationship-building as the key “lever” that is driving change in the food system.

Businesses build relationships of trust

To offer only one example of many presented in the interviews that follow: Snowville Creamery in Pomeroy is one solid nexus of activity that promotes the growth of several businesses simultaneously, with multiple benefits. The creamery (a) buys milk from two Ohio farms practicing sound environmental stewardship; (b) produces exceptional quality pasteurized milk and cream; (c) distributes these products to retailers across the state, and to urban markets in Pennsylvania and Washington, DC; and (d) produces the base used by Jeni's Splendid Ice Cream in Columbus to make world-class ice cream. Jeni's, in turn, (e) buys tons of fresh produce from Ohio farms to flavor their ice cream, which (f) creates additional business for Ohio farmers and suppliers. This in supports (g) wholesalers, (h) distributors and truckers, and (i) grocery retailers. Moreover, organic wastes from the dairy farm get cycled into (j) new fertility for the soil.

Of course, Snowville also offers consumers the benefits of access to grass-grazed, non-homogenized milk and cream; and reduces environmental impacts through careful reuse of water and efficient use of energy. Moreover, the two farms that nurture the cows that produce milk for Snowville foster better water quality by relying on permanent grass pasture; raise animals in ways that reduce the potential for contamination; create the conditions under which family-based business can thrive; build wealth in their local communities; ensure that the skills of food production are advanced in Ohio communities; and protect rural landscapes.

This creamery, of course, is only one example of the formation of a cluster of food-related business. Each of the firms interviewed for this report is part of a cluster that grows

uniquely to the resources, opportunities, challenges, and leadership in its own community. Aided by supportive nonprofits, extension educators, and public officials, these clusters create networks of mutual trust, and cycles of money, that tend to build health, wealth, connection and capacity in Ohio communities. This is an essential strategy for economic recovery, given the current crisis in lending and finance.

Emergent networks are based on developing-world experience

These emergent business networks are often led by people who hold significant experience in developing countries, or in low-income communities in the United States. These innovators are driven by a deeply informed sense that America will thrive only if it learns to do business in a more inclusive manner, with a sharper sense of limits (knowing the limits of the use of power, working to share power effectively rather than dominating others, and being more contained within our boundaries). This requires patience, an engagement with community, and a long-term view. Many established business managers have had no opportunity to develop these capacities, due to their immersion in a fast-paced and competitive business climate that favors short-term results.

Both for-profits and nonprofits look for subsidy

Indeed, the interviews with food-industry leaders compiled for this report show that new entrepreneurs are blurring the distinction between for-profit and nonprofit enterprise. Many for-profit ventures are requiring subsidy to take root, and many nonprofits are earning income in entrepreneurial ways. There is also a re-emergence of co-operative forms of business.

Public investment must create supportive infrastructure

Public bodies have a clear responsibility to support the growth of these business clusters by creating supportive infrastructure. This report uses the term “infrastructure” in a very broad way, including at least the following: (a) efficient market channels, transportation and distribution systems that connect Ohio businesses with local consumers; (b) physical facilities such as warehouses, root cellars, coolers and freezer space that ensure the state can build up and maintain food reserves in case of financial or other crises; (c) regional investment funds that support local and regional food visions; and (d) knowledge bases that ensure that community-based foods initiatives can rely upon the best technology and expertise available, and can effectively measure progress in creating a more sustainable Ohio economy.

Our research found that the prevailing food system is more a creation of public infrastructure investments than of market forces. Policy has augmented commerce’s tendency to focus on commodities and distant markets, rather than on the communities of people who live in Ohio. This is good news, because public policies may be changed, while market forces seldom can be.

If Ohio builds infrastructure that creates local efficiencies, this may be the first time in the history of the state that this has been accomplished. This new way of doing business will draw upon Ohio’s history, and its many economic assets, but will also create new opportunities and structures that were never imagined before.

Ohio has long looked to distant markets

Early Ohio agriculture was formed to please commercial markets, largely in urban centers like Baltimore, New York, New Orleans, and St. Louis, rather than local markets, which were not viewed as large enough to support Ohio farmers. Agriculture was also structured largely around waterways, then railroads, and then highways, rather than around the goal of creating lasting infrastructure supporting Ohio communities.

A 1982 study by Ohio farmer Jon Shafer, writing for the Cornucopia Project of the Rodale Institute, concluded that the agricultural economy of Ohio had developed in ways that were similar to those of a colony.⁷ As a producer of raw commodities that were sold into global markets, the state was not effectively feeding itself, and moreover had very little power over its own commerce.

The emergent food sector in Ohio is at long last tackling this challenge, and attempting to reverse these patterns of dependency. The economic case for Ohio to produce more of its own food is quite compelling. Over the twenty-year period 1999-2008, Ohio farmers gained a surplus of \$300 million per year (about \$4,000 per farm), but depended heavily on other sources of income — government subsidies, rental income for renting out land, and most importantly, making sure that one or more family members hold off-farm jobs — to make ends meet. The year 2010 brought high crop prices, yet also skyrocketing input costs. After adjusting for inflation, the net farm income from producing crops and livestock nationally was slightly less than in 2008.

Moreover, Ohio farmers spend about \$4 billion each year buying farm inputs that are sourced outside the state. This creates a significant flow of money away from rural communities in Ohio. Simultaneously, this represents a huge economic opportunity for the state, if these input costs can be provided by local sources.

Meanwhile, Ohio consumers buy \$29 billion of food each year. Yet about \$26 billion of this food is sourced outside of the state. Repatriating these consumer dollars also represents a prime economic opportunity.

The Ohio farm and food economy sustains losses of \$30 billion each year

All told, then, the Ohio farm and food economy causes \$30 billion to flow away from the state *each year*, as farmers farm and consumers eat. Bringing these expenditures — money Ohio residents already spend — back to Ohio is not necessarily easy. The infrastructure that would connect Ohio farms with Ohio consumers will need to be carefully constructed, through both private and public investment.

This also represents economic opportunity

Yet the payoffs are clear. If Ohio residents purchased only 15% of the foods they eat at home directly from Ohio farmers, with no intermediary, this would result in \$2.5 billion of new farm income for the state — more than a third of what farmers now sell to fickle commodity markets.

Moreover, the federal subsidy system, by offering cash for commodities, has essentially subsidized the extraction of wealth from the state. USDA data show that Ohio farmers spent, since 1949, \$152 billion *more* paying for external inputs than they received from farm

subsidy payments. This means that even when some individual farmers are earning a profit, the farm sector is shipping immense quantities of money out of the state — consequently, rural communities lose wealth and capacity.

One result of this extractive economy is that over 3.1 million people (28% of the state's population) earn an income of less than 185% of the poverty line — the level at which children qualify for free and reduced school lunch. It is a significant challenge for Ohio to acknowledge that more than one quarter of the population, in a prominent farm state, is unable to afford the food they need. Moreover, low-income residents of Ohio make up a substantial market, spending \$6.5 billion each year buying food.

It is not surprising, given these extractive relationships, combined with prevailing subsidies given to established businesses, that the emergent food sector would require subsidy of its own to flourish. Yet how to support is a critical issue, because some subsidies draw wealth out of Ohio. The most lasting public investments are likely to be infrastructure investments.

Peak oil creates great uncertainty

Further, Ohio heads to a future of great uncertainty. The prevailing food system is fundamentally dependent on the availability of relatively low-cost oil. This assumption is rapidly breaking down as oil supplies peak. There is no way to know whether oil will be available in 20 years — nor if it is, how much it will cost. Climate change is creating unpredictable swings in temperature, rainfall, and damaging weather events. Farmers, of course, are the most vulnerable element of our society to such weather trends.

In this period of uncertainty, small businesses are often better positioned to respond with flexibility to changing conditions, simply because they are small, and by their nature are responsive to local markets rather than global ones. By clustering, as in the Snowville example above, these small firms may be able to build greater stability.

Business clusters create jobs, stability and resilience for Ohio

Moreover, if small firms are networked with each other, and with the communities in which they operate, this will build both scale and critical social connectivity. Building this “social capital” will be of prime importance, both for economic recovery and for keeping peace during uncertain times. Those communities that are the most effectively networked will be those that can be the most resilient. Business clusters have a clear role to play in fostering this social capital, along with their community partners. This will ensure that job creation lasts.

Endnotes

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- ¹ One analysis of Ohio's food business clusters was performed by Sporleder, Thomas L. (2007). "OHFOOD: An Ohio Food Industries Input-Output Model Version 9.0." Ohio State University AED Economics Department Report AEDE-RP-0096-07. The Ohio State University, November, page 1.
 - ² Ohio Department of Development (2008?). "The Ohio Food Processing Industry." Downloaded from www.development.ohio.gov/Research/files/b405000000.pdf on February 9, 2011.
 - ³ James, Scott (2010). "The Future of Food." Forbes Corporate Social Responsibility Blog, September 28. Viewed March 26, 2011 at <http://www.forbes.com/csr/2010/09/28/the-future-of-food>.
 - ⁴ Ohio Department of Development (2008?).
 - ⁵ This author did not find a single source of data that provides a complete portrait of the Ohio food industry. Note that this one paragraph includes data from 2004, 2006, and 2008. Sporleder (2007) includes forestry products in its depiction of agriculture in 2004, so this report estimates the amount of sales that accrued to selling food through retail channels.
 - ⁶ Bureau of the Census, County Business Patterns data for 2008. Note that Sporleder (2007) finds even larger counts.
 - ⁷ Shafer, Jon (1982). *Toward a Sustainable Ohio in Food, Farmers and Land. A study of the food system of Ohio*. The Cornucopia Project.