

Rural COOPERATIVES

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Thinking
Outside the
Carton

Miller
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South Dakota: great faces, great places — and great value-added opportunities



The Dakota Provisions plant in Huron, S.D., is owned and operated by 44 turkey producers. The plant now employs 500 people and produces beef and pork food products, as well as those made from turkey. Photo courtesy Dakota Provisions

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Editor's note: Schofer was a co-op development specialist with USDA Rural Development when he wrote this article; he recently became deputy director for outreach with USDA's Farm Service Agency.

South Dakota's state motto, "Great Faces, Great Places," refers to Mt. Rushmore National Memorial, the Crazy Horse Memorial and many other breathtaking scenic vistas the state offers. It is also a land of great co-op and value-added venture development opportunity, which USDA Rural Development is working to promote.

"USDA Rural Development in South Dakota is interested in strengthening and developing South Dakota's rural cooperatives to provide increased economic opportunities to farmers and rural businesses," says Mike Jaspers, the state director for USDA Rural Development. "By furthering the development of agricultural products, we are securing a future for the next generation as well as providing increased economic opportunities."

Rural Cooperative Development Grants, Value-Added Producer Grants and the Small Minority Producers Grants (the later program will be featured in the next issue of "Rural Cooperatives") are all tools being used in this effort.

Value-Added Ag Development Center

Since 1999, the Value-Added Agriculture Development Center (VAADC) in Pierre has been a valuable partner in helping farmers' ideas become productive, economic realities. VAADC's mission is to foster the creation of producer-owned, value-added agriculture by offering technical assistance, staff support and by championing value-added agriculture. VAADC is funded through USDA's Rural Cooperative Development Grant (RCDG) program.

Cheri Rath, VAADC executive director since early 2005, grew up on a farm near Aberdeen, S.D., and was with the Governor's Office of Economic Development before heading VAADC. Supporting the center are established agricultural-based associations, South Dakota state government agencies and South Dakota State University.

"South Dakota has traditionally lagged behind neighboring states in value-added agriculture," says Rath. "VAADC has turned that situation around with many partnerships and is now able to deliver quality technical

assistance to farmers, cooperatives and other agribusinesses. Past projects have involved aquaculture, buffalo processing and patented grain processing, all of which have demonstrated the ingenuity and entrepreneurial spirit of our farms and rural communities.”

Through a vast network of federal, state and local partners, VAADC has dramatically increased its capacity to deliver technical assistance.

Dakota Provisions LLC

Dakota Provisions, in Huron S.D., is a state-of-the-art, poultry harvesting and processing business owned and operated by 44 turkey producers. In 2003, individual turkey growers in the community realized that they needed to capture more economic return from their birds. They were looking for a profitable, long-term market that provided stability and security. They were planning and investing for

SDWG identity-preserved grains add value

South Dakota Wheat Growers (SDWG) began life in 1923 as a wheat pool, serving growers along the James River, which flows through eastern North and South Dakota. Today, the full-service grain and agronomy cooperative has more than 3,600 active producer-members across a region that encompasses about 37,500 square miles.

In addition to wheat, growers raise soybeans and, increasingly, corn. The rapidly expanding ethanol industry has made corn the largest volume commodity handled by the cooperative. The co-op markets more than 90 million bushels of all grain each year.

SDWG is the dominant grain and agronomy co-op of the region. Some of its central storage facilities can empty 500 trucks a day and load 440,000 bushels of grain in fewer than 12 hours. The co-op processes, transports, stores and markets grain, and offers members a menu of inputs and services.

Two joint ventures provide feed and petroleum. Six high-speed shuttle train loading facilities and eight other rail-loading facilities can link growers to ethanol plants and wheat mills to the east. They are also linked to export markets through the Pacific Northwest, as well as livestock markets.

Although SDWG is a large, diversified co-op, it still turns to the South Dakota Value-Added Agricultural Development Center for expertise (VAADC).

Blended grains mean added value

VAADC recently helped some of the co-op's wheat growers with a project already under way: a wheat processing facility in McLaughlin. The facility will enable the growers' cooperative to clean and blend grains to

meet flour millers' specifications for high-end flours.

Enhancing the process of segregating, blending and preserving the identity of grain prior to shipment will help area producers expand their marketing options.

For its part, VAADC staff work with all sizes and stages of development, both of producer cooperatives and of other value-added agricultural enterprises. They engage with businesses involved in grain, livestock, food processing, renewable energy, emerging technology and specialty products.

VAADC Executive Director Cheri Rath and her staff connected the co-op's management to the State AgProcessing Facility Refund monies and New Market Tax Credits. These efforts were successful, saving the co-op almost \$2.8 million for buildings, equipment and infrastructure. Co-op CEO Dale Locken says, "VAADC was instrumental in helping us...make the McLaughlin upgrade feasible." ■



South Dakota Wheat Growers' (SDWG) wheat segregating facility in McLaughlin loads its first train. The concrete silos were already there, but the steel loading structures and new tracks were recently added. Photo courtesy SDWG

their grandchildren's livelihood and quality of life.

In 2003, they organized an exploratory committee to look at marketing opportunities for their flocks. Working with the Governor's Office of Economic Development, VAADC organized meetings, compiled research and helped with local infrastructure issues. The research and analysis derived from a feasibility study showed that the proposed business structure and plant could be viable.

A business plan was developed using the assumptions and projections of the feasibility study. This led to the current organizational structure, financials and plant designs. The plant was financed in part by direct producer investments. VAADC helped Dakota Provisions through the funding process and forging of a comprehensive financial package.

Dakota Provisions' turkey processing plant, near Huron, also cooks beef and pork products, but is not involved with cattle or hog slaughter.

The plant came on-line in early 2006, providing ready-to-eat meats, poultry and protein products for the retail and food-service markets. The plant now employs 500 people and harvests 16,000 turkeys each day. It hopes to double that amount by 2009.

Ready-to-eat products are available cooked, oven roasted, netted or with collagen casings. For food-service customers, Dakota Provisions provides turkey breasts, boneless pork hams, natural roast beef and chicken-formed deli items, as well as deli slicing logs. Deli trays and platters with turkey, beef, pork, chicken and cheese items are available to retail partners. The plant also provides raw commodity products.

"There are very few opportunities for consumers to purchase products raised on the family farm and brought to a world-class facility that prides itself on innovation and food safety," says Rebecca Steele, director of sales and marketing for Dakota Provisions. "That is what Dakota Provisions provides."

Hayco Premium Forage

Hayco Premium Forage is a partnership between a family of farmers and a processing business in Sioux Falls, S.D. Hayco owns the production and processing from seed to packaged value-added product. Products include a variety of different mixtures of high-quality forage combined with other ingredients to maximize the nutritional value for either horses or cattle. Hayco guarantees that its forage products are sun-dried, certified weed-free, blister beetle-free and dust-free. Products promote equine performance and



Soy-based foam produced in South Dakota will be used in the seats of the 2008 Ford Mustang. Below: a sunflower snack produced by Dakota Farms International



female horse owners, 30-50 years old, married in two-income households. Olson praised Rath and VAADC for providing "top-quality technical assistance."

Hayco has developed a partnership with Triple Crown Nutrition Inc. to produce "Safe Starch" brand feeds. Urban markets of the East Coast are currently the primary customers, but the marketing effort is now national in scope.

Hayco has sold shipping containers of products to livestock owners in Pacific Rim countries and is looking to expand further in this market. Recreational riders in the national parks, national forests and on other public lands are a growing market segment for Hayco because they are now required to show that any feed brought onto these lands is certified weed-free.

Value-Added Projects

USDA Rural Development's Value-Added Producer Grants (VAPG) may be used for planning activities and for working capital for marketing value-added ag products and for farm-based renewable energy.

Eligible applicants are independent producers, farmer and rancher cooperatives, agricultural producer groups and majority-controlled producer-based business ventures.

Dakota Farms International

The Walter family farm, near Willow Lake, S.D., incorporates more than 45 years of expertise in farming and 15 years in raising registered and certified seed. Dakota Farms International Ltd. is an agricultural products marketing company based on the Walter family farm with the objective of marketing a variety of agricultural products domestically and for export.

The company was formed in 1994 with a focus on exporting food products to Asia. In 1997, Dakota Farms completed its first shipment to Asia.

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Dakota Farms markets a wide variety of bulk, non-processed products, including soybeans, barley, corn, buckwheat, rye and many varieties of wheat. Non-GMO, transitional, certified-organic products — as well as traditionally grown products — are available.

Packaging can be tailored to customer specifications. Value-added products include several types of wheat flour, soy flour and meal and a soy trail mix.

“The challenge is to gain more of the end price by moving further up the supply chain,” explains Tim Walter, president of Dakota Farms. “The higher the risk, the higher the return. We wanted to get out of the commodity business, where even premiums for certain grains eventually trail off as production increases and markets adapt.”

In 2004, Dakota Farms received VAPG funds for marketing barley tea. “The grant helped a great deal,” Walter says. “Costs involved with a start-up of a new product line are high. Developing products and marketing internationally is tough, and we could not have stayed afloat without assistance from USDA Rural Development.”

A roaster was purchased from Turkey, shipped and set up at Dakota Farms. The process of making the tea was not easy, and there were several setbacks. Specialists from Turkey had to be flown to South Dakota to perfect the process. Initially, the tea was going to be made from conventionally grown barley, but strong competition from China made this economically impossible. Dakota Farms then looked at using organically grown barley for a high-value boutique tea.

Walter then cultivated a relationship with a Japanese distributor. Dakota Farms produced a tea in bags and packaged the product under the Japanese firm’s name. Organic barley was purchased from several farmers in South Dakota, as well as Iowa and North Dakota.

Dakota Farms recently developed its own brand of organic, boutique tea packed in tins for the domestic market. The brand name, “Bushido,” is Japanese for “Way of the Samurai Warrior.” Dakota Farms unveiled Bushido last June at the World Tea Expo in Atlanta, Ga., where the response was “overwhelming,” Walter says.

Markets are always changing, and the Japanese tea market has begun to move away from individual bags to ready-to-drink teas. Dakota Farms is moving with the market, developing a ready-to-drink product line of Bushido barley tea which should be test-marketed this fall.

South Dakota Soybean Processors

South Dakota Soybean Processors (SDSP) is a value-added LLC, owned and operated by its 2,100 farmers in South Dakota and Minnesota. The crushing plant in Volga, S.D., employs 60 people and crushes an average of 80,000 bushels per day, or 28 million bushels annually. SDSP’s goal is to be a

financially solid business that maximizes the economic return to its members through development of quality products and competitive marketing.

“We are a stand-alone, independent cooperative business, owned and controlled by our farmer-members,” explains Tom Kersting, commercial manager for SDSP. The challenge SDSP faced was to create better returns for members by further processing soy oils. To develop innovative products and stay competitive, SDSP had to vertically integrate.

SDSP received VAPG funds to conduct a feasibility analysis and to establish a working capital account for new value-added products. SDSP set up an independent company, Urethane Soy Systems Co. (USSC), in which it holds a majority ownership. Due to price increases for petroleum-based inputs, soy oil is now very competitive.

USSC looked for various applications, including spray-foam seat components, insulation for buildings and spray-on bed liners for pickup trucks. “We are one of the few companies in the United States that provides soy-based products to the polyurethane industry,” says Eric Geiger, director of research and development for USSC.

USSC cooperated in a research consortium with the Lear Corporation (one of the world’s largest suppliers of automotive-interior systems and components), Ford, Henosol, Bayer and the United Soy Board to develop and use soy-based polyurethanes. Soy-based foam has been used in seat cushions for the Ford 500 and Chevrolet Impala models, and will be used in the 2008 Ford Mustang.

Since 2005, USSC has been providing materials for spray insulation used in homes and industrial buildings. This market is strong and growing. The spray-on truck bed liner, trademark named “Bio Tuff,” is the first soy-based, spray-on bed liner.

“SDSP is appreciative of the support provided by USDA Rural Development,” says Kersting. “The VAPG program has had an impact here at SDSP. It is a good investment in South Dakota and our community.”

Program delivery and customer service

“Our programs have a lot to offer cooperative and rural businesses, especially small and limited-resource producers,” explains Gary Korzan, cooperative development specialist for South Dakota.

In many cases, outreach to potential rural businesses and communities is the starting point in a working relationship with Rural Development. For several years, Korzan made presentations to students in Co-op 101 classes at South Dakota State University. He participates in the annual Value-Added Conference meeting in Brookings, S.D., to create awareness and promote the availability of the VAPG program. Participating at the South Dakota State Fair is another annual opportunity for outreach and education.

For more information on USDA Rural Development programs, visit: www.rurdev.usda.gov. ■