



PRODUCER PROFILE: Shepherd's Grain



Karl Kupers (left) and Fred Fleming (right) launched Shepherd's Grain in 2002 to market flour made with wheat grown in no-till systems. The goal was to bring higher returns by selling a high-quality product and a story, how no-till rebuilds the soil.

Building no-till agriculture through premium marketing

SHEPHERD'S GRAIN SELLS NOT ONLY HIGH QUALITY flour made from wheat grown with no-till practices – It sells the no-till story, winning it favor among leading bakers and restaurants in the Northwest. The company has built a model for direct marketing of premium agricultural products.

The story, as Shepherd's Grain co-founder Fred Fleming tells it, is about farmers caring for the land and leaving a legacy to children and grandchildren, and indeed, to a world in need of healthy, sustainably produced food. It is the story of the no-till farming system that no longer rips the ground, but drills in seed

and fertilizer, and rebuilds the life and health of the soil. It is also the story of saving the family farm by moving beyond commodity markets to make direct connections with customers.

Fleming and no-till veteran Karl Kupers in the late 1990s began planning a direct-to-customer marketing enterprise,

leveraging the branding value of no-till to “realize the wealth of the story and the product,” Fleming says. He was building off an earlier venture also intended to keep more wealth at the farm level, the Reardan Seed Company, which he started in 1981. Fleming and Kupers launched Shepherd's Grain in 2002. “We needed to be price setters rather than takers, and highlight our production system.”

The core concept, says Fleming: “Take a production system, no-till, beyond the farm with a story and see if it resonates with the public. The customer has to ask, ‘Is the story worth more than the commodity?’ We are looking for customers who understand the true value of the product, that they can then sell to their customers.” A key value proposition for customers is that “dollars are going back to care for the land . . . If we don't

bring wealth back to the land, we can't take care of it."

"In essence Karl and I are cheerleaders," he adds. Early on, the company had "zero PR budget. Everyone who hears our story loves what we are trying to do."

Growing regional and national markets

TODAY THE IDEA HAS GROWN into a \$6 million annual business marketing a range of flours including unbleached low and high gluten, whole wheat, pastry, fine cake and durum semolina. If you eat at Hot Lips Pizza and Bowery Bagels in Portland, Serious Pie and Blazing Bagels in Seattle, Portland's Marsee Baking, Seattle's Cupcake Royale, or at Grand Central Bakery in both cities, you've tasted Shepherd's Grain flour. Literally dozens of the region's bakeries, restaurants and markets from the coast to Spokane and Boise use or carry Shepherd's Grain products. (A listing of the company's customers is here: <http://www.shepherdsgrain.com/home/who-uses-our-flour/bellingham-area/>.)

The company's wheat is milled into flour on contract with ADM. Some products go around the nation. Continental Mills sells a line of Krusteaz baked good mixes, as well as Fisher All Purpose flour and mixes made with Shepherd's Grain flour. Smuckers has revived the White Lily Brand using the company's flour, and tells the story on its bags. Shepherd's Grain is working on its own branded retail product that it aims to launch in 2017.



Erin Baker of Erin Baker's in Bellingham, Washington is one of Shepherd's Grain's many loyal customers.

The company is exploring sorghum and millet products as well, but farmers must prove out agronomy first.

Production has also moved beyond the Northwest. While 32 farming enterprises on the Columbia Plateau still make up the core of producers, another group in southern Alberta grows the company's durum semolina. Yet another group in California also grows wheat for Shepherd's Grain. (Many of the company's growers are profiled here: <http://www.shepherdsgrain.com/home/our-growers/>.) Most Shepherd's Grain growers have an ownership stake in the company. Northwest producers manage around 135,000 acres, while the other regions add around 65,000 more. The company is also in discussions with producers in the Dakotas and Kansas. Brand name recogni-

tion is a powerful draw. But the company only brings new farmers in when current producers cannot meet market demand.

"We want to make sure markets are in place," Fleming says. "As markets have grown, we have reached out to more farmers."

The company aims at building sales to \$50 million in 10 years. The ultimate goal, says General Manager Mike Moran, is to move beyond niche marketing "to show people a better way of doing things" across the country.

Customer connections at the center

FOR NOW, SHEPHERD'S GRAIN is demonstrating the value of no-till practices and customer engagement to a growing audience.

"We continue to build relationships with the consuming public, with food activists, with people interested in saving the family farm," Fleming says. "I've changed my whole thinking away from commodity pricing. There's a huge marketing change, connecting with people in the food chain." That day Shepherd's Grain was hosting a tour of bakers visiting member producers in the Eastern Washington Palouse areas around Ritzville and Cheney. "Open the door and let them understand the culture of farming."

Making direct connections with customers has an additional benefit, one with important ramifications for any farmer considering direct marketing. Customers provide vital feedback on product quality and selection. Shepherd's Grain provides seed varieties to its growers based on customer taste preferences. Customer feedback helps the cooperative select varieties. One venue is a bake test at Spokane's Hutterite Colony, a member farm, which happens most years. Moran's own first engagement with the company

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was as a consultant helping Fleming and Kupers identify preferred varieties. He was chief baker for Grand Central before he came to Shepherd's Grain in 2014.

"When you go to commodity structure it's basically a race to the lowest common denominator," Moran says. Shepherd's Grain, on the other hand, seeks to market a product that meets the taste tests of bakers and chefs. "On a quality basis we surpass anything on the market. Part of what gives us the quality is those relationships. The farmer grows with a different level of care because, 'I know who the crop is going to.'"

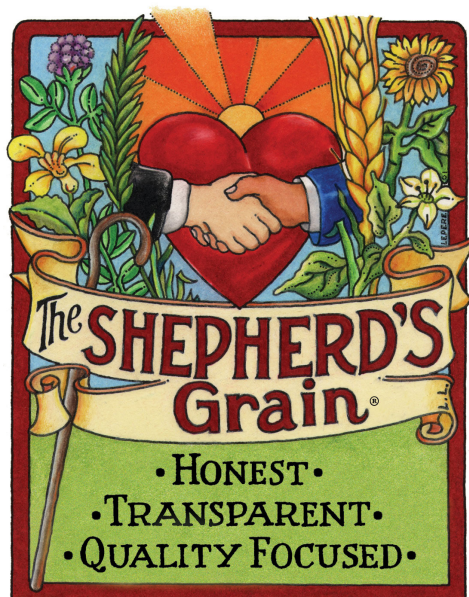
The combination of a tasty product and the no-till story allows Shepherd's Grain to charge a premium price. As of late 2016 it was 35-50% above commodity. But that is not always the case. In 2010 when commodity prices were skyrocketing, the company's products were actually selling at significantly less than the commodity rate. That is because prices are set on a strict production cost model with a reasonable rate of return in the 6-8% range. The model is working. In 2015 volume was up 5%, and as of the time of this writing, that was on track to repeat for 2016.

"The people that we're selling to are not buying on price," Moran says. "People are paying for traceability, quality, and contact with the farmers."

Third-party certification

TRACEABILITY STEMS FROM THIRD-party certification through Food Alliance, a Portland-based group that verifies sustainability performance by individual farmers based on criteria including:

- Safe and fair working conditions
- Reduced risk from pesticides and other toxic or hazardous materials
- Protection and enhancement of wildlife habitat and biodiversity
- Conservation of soil, water, and energy, and reduction and recycling of waste
- Transparent and traceable supply chains



Shepherd's Grain employs the power of branding to build markets for no-till wheat.

- Food product integrity, with no genetically engineered or artificial ingredients

- Continual improvement of management practices.

Shepherd's Grain is exploring another form of third-party certification that would provide farmers with credits for carbon stored in soils through no-till. The company is working with Native Energy, a Vermont-based carbon project developer and marketer. In fact, the first carbon credit contract in U.S. agriculture was struck between the Pacific Northwest Direct Seed Association and Entergy in 2002. The 10-year contract provided a small payment for carbon accumulated on nearly 6,500 acres managed by 77 association members. Kupers

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was involved in this early venture.

The scientific understanding of carbon accumulation in Interior Northwest dryland agriculture has increased significantly since then, providing the basis for more accurate modeling and more secure contracts. The current market price for a carbon credit is \$3.30/ton per year. This funding would provide a disincentive to re-introduce tillage for issues such as weeds, and tip the balance to another practice. It could also help conventional tillage farmers pay the upfront investment cost of moving into no-till. Costs for conversion to new equipment can range from \$500,000-\$750,000.

With commitments to sustainable agricultural practices, "Customers can feel good they have value alignment with the growers they work with," Moran says.

That kind of alignment drew Moran to the company. "Sustainability is a long-term play. It's rare to find that in the business world. These farmers with Shepherd's Grain do. They're thinking about the impact on their grandchildren."

"It's all about how we continue to grow wheat at an economic threshold that allows us to stay in business," Fleming says. "Shepherd's Grain allows us to be a little more aggressive in adopting new technologies."

An evangelist for the soil

FLEMING IS ONE OF THE NORTHWEST'S earlier no-tillers. A self-described "soil evangelist," Fleming moved his Reardan acreage to no-till in the 1980s. A few years later Fleming had a "defining moment" that confirmed his no-till adoption. He had just acquired a second farm and decided to shift management to no-till there as well in a spring barley rotation. A thunderstorm landed an inch of rain in 45 minutes. Even though soils were beginning to puddle, the land held, while his neighbor's came tumbling down.

"That day my land stayed on the farm," Fleming says. "Cultural practice allowed me to be a better farmer. My ground was able

to take in huge energy from the moisture. My neighbor had to clean off the road.”

Today his surrounding watershed is around 80% no-till. The practice and science behind it are better understood, Fleming says. “It has improved the environment dramatically.”

The Fleming place was homesteaded in 1888. A fourth generation farmer, Fleming manages around 4,000 dryland acres, with around a quarter fallowed at any one time. He raises mainly winter and spring wheat, hard and soft varieties, and spring barley.

Walking out in a fallowed field, the ground has a spongy feeling, in contrast to the harder feel of tilled ground. Fleming digs an inch down, the level where seeds will be planted. The clumpy soil is holding moisture. “Look at how wet that is. It’s pretty much on top. We created organic mulch that is insulated from summer heat.”

Says Fleming, “You’ve got to get down in it. You’ve got to get your nose in it. This soil will be alive after seeding. The ground is alive and growing. In spring you can smell the difference because microbes are at work. Many conventional fields have never seen a worm. It is not uncommon in our no-till soils to dig down and find worms.”

He drives across the fallowed field. “You could not drive on summer fallow field farmed conventionally.” Indents would have promoted erosion. If he had done that on the tilled farm of his youth, his dad would have kicked his derriere, he jokes.

Coming up to an operating tractor, Fleming notes that only three or four passes are required annually – spray, fertilize, seed. Two involve no soil interference at all. That contrasts with eight to 12 passes before – plowing, chiseling, spring harrowing, cultivating, fertilizing, seeding, weeding, smoothing ground. He estimates a 42% fuel savings, which is “why a lot of farms have adopted no-till.” Fertilizer application is variable, and computer controlled. “By using precision ag we are



Fred Fleming’s great uncle Herman Wagner first broke the ground on the family’s spread in the late 1800s with a moldboard plow. The practice resulted in erosion. Today Fleming is rebuilding his soil with no-till practices that directly plant seeds into the ground.

being more effective in applying fertility.”

In it for the long term

FLEMING RAISES OTHER CROPS INCLUDING canola and sunflowers. Crop diversity is a vital aspect of sustainable farming, so Shepherd’s Grain helps its growers market other rotations including, flax, oilseed sunflowers, canola, mustards, peas, and garbanzos, though not under the Shepherd’s Grain brand. That is a return to an original concept for marketing sunflower products that Fleming and Kupers had

when conceiving Shepherd’s Grain. “The goal now is to find markets to maintain the health of the soil,” Moran says.

Now in his late 60s, Fleming is moving toward retirement after a long career as an innovator in agricultural practice and market development. The legacy is an agricultural marketing model centered on the soil and its health for future generations. He gives credit to many who took a hand in creating that legacy. “Without an unbelievable support system behind us we could not have gotten here today.”

Shepherd’s Grain producers are “in it for the long-term,” Fleming says. By connecting the heritage of the land to its future, they are helping answer the all-important question, as Fleming puts it, “How are we going to have healthy food to feed our nation?” ■

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