

## Stonyfield takes steps to overcome supply shortage

**6/14/2006-** With the US organic market on a sharp uphill path, and the nation's organic farmers unable to keep up with demand, the CEO of leading dairy firm Stonyfield Farm tells FoodNavigator-USA how he is dealing with the lack of supply.

According to Gary Hirshberg, supply is the company's obsession these days. *"It's one of the problems of success."*

President and chief executive officer of the world's largest organic yogurt manufacturer, Hirshberg said the firm would need 100 percent more organic milk to fulfill customer requests- but there are just too few happy cows around to pump out enough milk.

As a result, the firm has had to look into sourcing ingredients from outside the US, switching some of its lines to non-organic and embarking on farmer support programs to promote organic farming.

*"It got to the point where we found ourselves having to wait in our yogurt plant for the milk to come in. We had everything ready to go but we couldn't run the plant because the truck hadn't arrived yet,"* he said.

Besides the inevitable costs linked to a cutback in processing efficiency, Stonyfield has also missed out on growth opportunities because there was no product to grow with. According to Hirshberg, the firm has seen an annual growth rate of around 27 percent for the past 13 years, forecast to rise to 30 percent this year. But this would be 40 percent if supply were not an issue, he said.

One of the problems that has led to the current situation is a lack of supply planning when organic businesses started out. Even as late as 1996, the signs that the market was going to grow were there.

*"As an industry, we should have envisaged this. Stonyfield entered the organic fluid milk market two and a half years ago. In hindsight, the timing could not have been worse."*

But although that sector has now grown into a \$30m business for the firm, a supply shortage forced the company to convert two of its organic lines to all natural, hormone free- but non-organic. This *"survival mechanism,"* as Hirshberg called it, was *"nothing I was proud of,"* and contributed to reducing the company's organic products to 82 percent of its total business, compared to the 90 percent of two years ago.

But Stonyfield Farm is confident it will eventually get up to 100 percent organic.

For the past year and a half, the firm has been looking into the *"short-term situation"* of sourcing organic milk powder from New Zealand in order to supplement supply.

But on a more permanent basis, it is identifying farmers that could be interested in converting to organic, and paying them more in order to help them with the switch. These 'transitional fees' also come together with veterinary and technical assistance. Another move the company has made to try

to guarantee supply involves giving a \$200,000 grant to the University of New Hampshire to help fund an organic dairy farm. Due to be used for education and research, Stonyfield hopes the farm will help create the next generation of organic farmers.

But even if supply catches up with demand, Hirshberg believes prices for organic products will increase.

*"We'll see people paying the real costs of what it is to be organic, and it's the farmers who will benefit. The business man in me is a little nervous about this, but the activist in me is delighted as farmers will get more pay and more stability than ever before,"* he said.

And as for Wal-Mart's claim that it will sell organic goods at only 10 percent of the conventional price- Hirshberg believes "if anyone can do it, Wal-Mart can."

*"They have great efficiencies in their supply chain, partly because they pack trucks completely full and don't keep products waiting in the warehouse. No one will ever beat Wal-Mart on price."*

But whether retailers focus on a rapid turnover- like Wal-Mart- or on product diversity and consumer education- like Whole Foods Market- they all recognize that organics is not a fad but a trend that is here to stay.

*"That's why you see them adjusting their merchandising, putting their signature on products to enable there to be a lot more defense for them."*

Hirshberg, who has been in the organics business for 24 years, has overseen Stonyfield Farm's growth from a 7-cow organic farming school in 1983 to a company currently bringing in \$200 million in annual sales. It is what he calls "a 24 year overnight success."

And he continues to be optimistic about the company's growth potential, despite the current supply constraints.

*"We're definitely facing problems in our industry. But they're wonderful problems, and in the end it's the farmers who win and there's nothing wrong with that."*

*"These problems beat the heck out of the alternative."*

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