

## Case Study 11

**Value-added, On-farm Processing**  
*Summer's Harvest – Hope, ND*  
*Interview with Dennis Kubischta, Owner*

Case study by

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**Introduction**

Value-added agriculture involves the processing of food and nonfood raw materials, thus adding value to a food product (Ware, 1999). It is the transformation of raw agricultural commodities to consumer-ready food products. The growth of value-added products has captured most of the \$251 billion dollars growth in total food expenditures (Tronstad, 1999). It includes local processing, packaging, or marketing, which adds value to raw agriculture products.

Value-added agriculture can be one way to preserve small farms (*Progressive Farmer*, 2000). Small farmers often get involved in value-added processing and marketing as a means to improve farm income and sustain farm operations. Small farms involved in value-added agriculture can make creative combinations of products, by-products, processing, and markets.

Small farms contribute to a diverse and aesthetically pleasing rural landscape and represent the traditional spiritual and cultural values of American people. They can capitalize on supplying local and regional niche food markets with those characteristics. Value-added agriculture on small farms frequently involves specialty and differentiated products, which can be an area where small farms and small food processing firms have a competitive advantage over larger firms. Publicly supported efforts to develop and support new market strategies are needed to enable small farmers to capture a greater share of the value of their production.

Value-added activities can provide a supplement to a farm's other agricultural enterprises. The addition of value can result from the application of the farmer's own time, management, skills, and resources to make products with less capital expenditures and purchased inputs, as well as from the sale of products of higher intrinsic value for consumers who are willing to pay more for quality. To have market power, value-added agriculture must create incentives for resource stewardship and reward sustainable production systems.

Farmer-to-consumer relationships are often face-to-face, which increase social interactions. This social interaction within the local food system creates trust and norms that increases social capital. Social capital offers information and control benefits, which attract consumers to products that represent a certain set of social and environmental values. Thus, the profit from the value-added business operation can flow to and within the community. Value-added activities often make wise use of local resources and enhance the quality of community life desired by its people.

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“Look what’s happening in the Great Plains. The out-migration of our neighbors is not being stemmed. In the 2000 Census results, ND had the lowest growth of all 50 states. There is little optimism left and people are giving up and leaving their farms. My neighbors have really been interested in what we are doing. It has given them hope that there is something local that can be done to survive and prosper. Sometimes the simple sentence, ‘If they can do it, so can someone else,’ is enough” (Dennis Kubischta, SARE Farmer and Rancher Final Report).

Dennis Kubischta is a self-employed, family farmer, who with his wife Mary Kubischta and children Kathy, Vincent, and Jenny, run the Summer’s Harvest flour milling company, a successful value-added processing operation near Hope, ND. Dennis’ great-grandfather came to North Dakota to farm 100 years ago and Dennis is now the fifth generation to work the land in the state. Dennis has traveled to many countries and across the U.S., and he likes where he is living now. His contentment contributes to his commitment to hold on and find unique ways to make a living on the farm. He and his family are evidence that capturing a greater portion of the food chain can make the difference between success and bankruptcy. For Dennis, “The idea of failure is incomprehensible.”

### History

Dennis believes that in order to succeed in farming, he must identify ways to add value to his business. His first efforts about a dozen years ago centered on expanding and diversifying his operations with 200 head of sheep. He purchased a cleaning mill to clean grain and feed the screenings to the sheep, which was another way to add value to the grain. He currently dedicates a portion of his cropland to raise certified seed for sale. However, Dennis was aware that these ventures did not solve the problem of being dependent on volatile commodity markets. The true opportunity lay in entering the portion of the food market in which prices were more fixed.

Dennis read an advertisement in 1994 that described equipment he could purchase to mill his own flour from the wheat he raised. Initially, he and Mary considered the operation as a risk, but with an initial loan from the Citizen State Bank of Finley for \$10,000, it was a risk they could afford to take. It was also a way in which Mary, who is now nearing the completion of a degree in Business Administration and Accounting from Mayville State University, could contribute financially to the family’s income without having to leave her young children and work off the farm (Olson, 1995). Since that time, the Kubischta’s have been able to secure many solid customer’s in the region who have expressed not only a great deal of satisfaction with the Summer’s Harvest products, but an interest in the products which exceeds the current production capacity. Dennis’ and Mary’s roles evolved over time. Dennis is now responsible for the milling processes that range from cleaning, milling, and packaging to delivering flour to their customers. Mary covers the administrative functions, which include purchasing, bookkeeping, and writing business plans.

With the assistance of Duane Cariveau of Cariveau Consultants and funding from several grants, Dennis and Mary conducted marketing research and determined that there was a large, untapped market for an expanded line of Summer’s Harvest products. They submitted a business

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plan that outlined an ambitious program for expansion. The plan, which called for \$750,000 of investment capital, was not approved by funding agencies. Dennis was disappointed but not deterred. After additional consultation, he and Mary submitted another business plan, which outlined a new, scaled-down and “realistic” version of the expansion. It called for the addition of a flour mill and the conversion of the current mill to purely organic processing. This proposal, which asks for \$76,000, remains in the stages of approval but has every indication of being successful. The expansion would increase current production from 100 to 900 bushels per week. In order to be prepared for increased production within the next year, Dennis has begun the necessary improvements in infrastructure and has ordered the new, stone ground mill from New River Mills, North Carolina.

### Customers

Top Taste Bakery, 19 miles away in Finley, ND, has been a major market for Summer’s Harvest flour for the past five years. They send frozen products throughout the U.S. Quality Bakery and four of the Hornbacher’s bakeries in Fargo-Moorhead constitute another large portion of the Summer’s Harvest regional customer base. Additionally, Summer’s Harvest retails two-pound and five-pound bags of flour to the Cash Wise and Hornbacher’s grocery stores in Fargo-Moorhead.

Dennis produces 100 percent stone ground, whole wheat flour. Dennis’ customers like the quality of his product and its consistency. He notes, “My best marketing tool has been to take a bag of flour to somebody and say, ‘It’s yours, try it.’ And they all like it.” According to Will Robinson, the milling specialist in the North Dakota State University (NDSU) Cereal Science Department, in taste tests in which bread made from stone-ground flour is a choice, customers prefer stone ground products. Dennis delivers fresh flour that is never more than one week old. Every detail is important, as Dennis points out that the packaging for his two-pound and five-pound retail bags are of clear plastic so customers can see the product they are buying.

### Resources

Dennis received several grants to do market research, hire engineering consultants, and develop a business plan. The USDA Sustainable Agriculture Research and Education Program (SARE), the North Dakota Agricultural Products Utilization Commission (APUC), the Steele County Jobs Development Authority, and the Otter Tail Power Company have all provided grants to assist in the development of the business.

Milling specialist Will Robinson and the NDSU Cereal Science Department helped with technical advice such as the size screens needed to create the level of flour fineness to meet regulatory and customer demands. Jim Swanson at the North Dakota State Seed Department helped Dennis to select the varieties of grains to grow. Dennis prefers the Grandin wheat variety because it has excellent flour and bread making characteristics. Duane Hauck, Director of the NDSU Extension Service and the research conducted by the Research and Extension services have been a valuable resource for sustainable agriculture and organic farming. A consulting engineer at Contract Engineering and Milling, Inc. developed projections for flows and equipment for the first business expansion plan. An engineer from Van Sickel & Allen & Associates, Inc. prepared the structure and cost estimates for the proposed large-scale expansion.

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The engineers were also helpful in creating the scaled-down expansion for the business when capital for the first proposal could not be secured. Duane Cariveau of Cariveau Consultants was a very helpful resource. He investigated potential markets, assisted with the business plans, and helped Summer's Harvest grow and expand in new markets. The Service Corps of Retired Executives (SCORE) was also a resource for the business. In addition, Dennis received advice from the state-owned North Dakota Mill and Elevator and worked with local power companies and an organic certifying agency. Because Summer's Harvest is located in Steele County, it will benefit from the Griggs-Steele Empowerment Zone, which provides low-interest loans for businesses in the two county area to improve economic development.

### **Value-Added Processing Philosophy and Practices**

Dennis uses Grandin wheat, known for its excellent bread making characteristics, to produce 100% stone-ground, whole wheat flour. Since 1995, he has delivered the same variety of wheat, protein, and moisture level to his bakers, a level of consistency that they cannot get elsewhere. Through this emphasis on whole wheat, and increasingly organic, production, Dennis is focusing on "niche marketing."

Summer's Harvest provides stone ground flour made from whole wheat. It is a slow, archaic process that involves sending grain through a series of lans and grooves in the face of two 8-inch, 400-pound stones. The friction produced by the grinding creates a great deal of heat, which changes and enhances the flavor of the flour. About one second is needed for a kernel of wheat to go into the mill and be turned into flour. By contrast, larger mills may take as many as 17 minutes to process the same kernel of wheat. Their process is long and slow and creates much less heat, but is mechanized to produce large quantities.

Dennis currently has 76 acres of certified organic farmland. The certification process required that he not use any chemicals or unnatural fertilizers for three years prior to inspection by an organic certification agency. He described a simplified growing process – "You plant the grain, you cultivate it and combine it, and that's it." Dennis also purchases grain from other organic farmers in the region to be milled for the organic market.

Dennis had farmed 2,000 acres of wheat, barley, soybeans, and sunflowers. He raised hay for his sheep, and he owned several acres pasture. As the flour milling business grew, Dennis needed to cut back his workload by leasing 400 acres to a neighbor and cutting the number of sheep he raised from 200 head to 60. He reduced the amount of cropland he farmed to about 1,200 acres. Because Dennis believes that crop rotation results in many benefits for the crops and the soil, he asks that those who lease his land will continue this practice.

Of the 600 acres Dennis devotes to raising wheat, 400 acres are currently used to grow certified seed, and 200 acres are for the flour mill, of which 76 acres are certified organic. Dennis plans to keep only enough seed to supply himself as he focuses more on the wheat he needs to expand the flour milling business. Within a year, he expects that he will need to contract with other farmers. Because usually, as Dennis explains, "Farmers are not paid anything for quality," he will pay them a premium to raise the variety-specific, identity-preserved grain he needs for Summer's Harvest.

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Dennis has become involved in many of the steps of the food chain. In addition to supplying some of his own inputs in the form of seed, Dennis produces and harvests wheat and sells it to Summer's Harvest. He is also involved in transporting wheat to the mill, and manufacturing flour. He has been assisted in marketing by Duane Cariveau, and in the wholesaling of 25-pound and 50-pound bags of flour by Ussatis Distributing of Moorhead, MN. Retailing is a relatively small part of his business, perhaps about five percent, however the two-pound and five-pound bags of flour appear to be the most profitable way to sell Summer's Harvest flour. Although his prices are very competitive at the wholesale level, his milling scale causes retail prices to be slightly higher than similar products offered by large corporations such as Pillsbury and the North Dakota Mill and Elevator. Even if he could produce in larger quantities, Dennis does not have an advertising budget that could compete with the larger corporations. Dennis participates in the two Pride of Dakota shows held annually, and his retail products have sold successfully at the Cash Wise and Hornbacher's stores in Fargo-Moorhead.

Dennis is a member of Pride of Dakota and other community or farm-related organizations. He contributes to the community by supporting fund-raisers, occasionally donating bags of flour. Some of the organizations Dennis has supported include school events, the firemen's association, the Steele County Crop Improvement Association, and 4-H. Because jobs are scarce in the community, Dennis is occasionally approached about employment opportunities. Although Summer's Harvest is currently run entirely by the Kubischta family, the current expansion may allow the company to hire as many as four people within the next three years.

### Challenges

Dennis stated, "Niche marketing is easy to say, but hard to do. If it was easy, why wouldn't everybody just go get a niche? I can't give you the definition of the word 'niche,' but I think it doesn't mean that everybody could have it, or it wouldn't be a niche anymore." Dennis believes it is likely that other people may start to produce flour with the same marks of quality that set Summer's Harvest apart. He believes that "markets don't wait and time is like an ice cube in your hand. Some ideas are good now, and a lot of other people are going to be thinking about them, too." The barrier of gaining access to markets remains. Although past market analyses have been very useful, Dennis has not necessarily had sales from them because he does not have the production capability to sell more. Perhaps the greatest challenge is that of securing sufficient capital for expansion.

It is difficult for small companies to get started, but says Dennis, "you just gotta do it." One example of the frustration of being a new, small business relates to the purchase of flour bags. Most bag companies set a large minimum order of bags. However, large orders do not allow a flour company to test out a market before committing to a larger-scale operation. Dennis was persistent and finally located a company willing to make bags in smaller quantities. Other business details, like making sure that all bags are printed with UPC codes, and determining what type of surface the walls of the flour mill must be lined with to pass inspection, were items Dennis found could not be anticipated. However, he says, "There's lots of things like that you learn along the way, but I haven't found one thing that can't be overcome."

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These challenges occur in an economic environment that can be hostile to the family farmer. Dennis asks, “What would make me believe that I’d be any different than the rest of the people if I didn’t have this business?” He answered this question in a letter to the North Dakota Agricultural Products Utilization Commission, “The supplemental non-farming activities have made a major difference in our ability to remain profitable and stay in this area.” Dennis believes that farmers are very optimistic, however “If you knew it would never be good again, you’d quit.” Although the value-added processing has been the best alternative for success on his farm, Dennis says that they are still just hanging on, and that dealing with the financial stress every year is difficult.

### **Opportunities**

The future lies in the ability to market the products. Summer Harvest’s current production expansion will be funded jointly by the Kubischta family, the North Dakota Ag Pace program of the Bank of North Dakota, and the business loan program offered through the Griggs-Steele Empowerment Zone. Dennis hopes to secure additional grant funding from groups like SARE to continue the marketing process once the expansion is in place.

It is an asset to be close to Fargo, a major distribution area. With increased production capacity, Summer’s Harvest will look into securing other accounts in the area with companies like Nash Finch and SuperValu. Although there is interest from other markets, like Byerly’s in the Twin Cities area, the current expansion may not be able to meet that demand. Another asset that capitalizes on location is the access the flour milling company has to wheat in the area. Because wheat is a strong crop in North Dakota, Dennis has virtually eliminated the issue of where to get his raw materials and how to transport them. An additional asset is North Dakota’s cold winter climate, which serves as a natural pesticide to keep insects out of the grain storage areas, in contrast to the chemicals many farmers must use in conventional farming methods.

Dennis expects an increase in the demand for organic products given the concerns about genetically modified organisms (GMO) and customers’ desire to have the option to purchase non-GMO foods. He is positioning himself to capitalize on this burgeoning market. Additional markets relate to Dennis’ ability to provide bakers with the variety of grain they want, show them which field it came from, and tell them exactly what inputs were put on that field. Companies like Pillsbury may be interested in signing take-or-pay contracts that guarantee the equivalent value of products even if a product line is discontinued, because their operations are not able to accommodate the slow process intrinsic to stone ground milling. Another asset for a smaller-scale company is that products can be tailored to the specific needs of customers. Future market expansions may include selling “designer flour” to companies for private labeling.

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**Photograph 1. Summer's Harvest grain silos, Hope, ND, January 2001.**

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**Photograph 2. Dennis Kubischta bagging flour, Hope, ND, January 2001.**

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**Photograph 3. Dennis Kubischta sealing a flour bag, Hope, ND, January 2001.**

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**Photograph 4. Two pound flour bags, Hope, ND, January 2001.**

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**Photograph 5. Stone grinding mill, Hope, ND, January 2001.**

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**Photograph 6. Summer's Harvest farm, Hope, ND, January 2001.  
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