



Mid-scale food value chains case study: Red Tomato

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Origins of Red Tomato

Michael Rozyne, one of the creators of the international fair trade company Equal Exchange, founded an organization called Red Tomato in 1996. The goals for Red Tomato were to develop a dual purpose non-profit to market sustainably grown fruits and vegetables in the Northeast, and to provide consulting services for regional food system development nationwide. This research brief focuses on the first goal.

Red Tomato has defined its role as follows:

Connecting farmers and consumers through marketing, trade and education, and through a passionate belief that a family-farm, locally based, ecological, fair-trade food system is the way to a better world and a better tomato.

The Red Tomato that exists now grew out of unsuccessful attempts to operate on a broader geographic scale and create an alternative food supply chain. In 2003 the organization got rid of the trucks and coolers, and kept the customers and farmers. In other words, Red Tomato became a supply chain coordinator rather than a supply chain operator.

Red Tomato's philosophy and values reflect its unique approach to business and commitment to social change (from www.redtomato.org):

At Red Tomato we like to combine things. The best salsa is a mix of tomatoes and fresh seasonings ... A diverse ecosystem is stronger and more adaptable than a monoculture. The same is true about the thinking it takes to build a better food system. Red Tomato combines innovation, practicality and sometimes the sheer adrenaline of business, with the deliberation and creativity of non-profit social change. We combine local, family farm production with fair pricing and supermarket availability ... We believe in farmers as keepers of knowledge. We believe in science. We believe in commerce as a tool for change and an arena for the exchange of ideas and values.

Key characteristics

In the broadest sense, Red Tomato represents a major shift from thinking of food as a commodity

by ensuring that high-quality products earn suitable rewards. Red Tomato carries out marketing and distribution functions for 35 fruit and vegetable farmers in the northeastern United States. The company's ability to coordinate depends on establishing effective, strategic partnerships that provide needed expertise and capacity.

From the perspective of the firm's retail business clients, Red Tomato creates value by providing the logistical support necessary for aggregation and distribution so that retailers can purchase a broad variety of products from a single source. Red Tomato plans to make its food trading business self-supporting within ten years, but has not yet reached that goal.

The Red Tomato pricing philosophy can be traced back to the fair trade model which sets it apart from other distributors. Red Tomato refers to it as a *dignity pricing* model. Prices are based on a combination of grower production costs, experiences in the market and growers' sense of what's fair. It works like this: Red Tomato traders ascertain from growers the following price points: a) the average price recently received for a given product; b) the price they want through the Red Tomato brokerage; and c) the lowest price they will accept with dignity. Armed with this information, Red Tomato traders seek to get the highest reasonable price from a given buyer.



Red Tomato markets and distributes fruits and vegetables for 35 farmers in the Northeast.

Says Michael, “We can usually get between the average and desired price ... and we will never sell below the dignity price without first getting a grower’s permission.”

At Red Tomato and throughout the rapidly changing produce business, pricing decisions are made account by account, product by product and season by season. For example, prices for peaches in the Northeast vary according to the ripening schedules for New Jersey peaches for a given year. The length of pricing agreements varies between customers and products.

In addition to increased prices, Red Tomato offers growers access to new market channels and outlets for smalls or seconds. For example, Red Tomato’s mini-baskets of peaches enable the high-value sale of smaller peaches that can be the key to profitability for that crop. “Sometimes selling the lower or smaller grades is the best thing we can do for a grower,” says Michael.

Strategic supply chain partners

Red Tomato recognizes that selecting appropriate farmer partners is a critical task and relies quite a bit on existing growers to nominate new ones. The firm seeks farms that meet a set of criteria—neither too large nor too small; excellent quality products; can supply sufficient volume and variety; have adequate storage, refrigeration, packing and trucking capacity; provide a geographic fit with the rest of the business; and have leaders whose temperaments fit the culture of Red Tomato.

For distribution services, Red Tomato relies on both its farmers and three independent trucking companies. It has formed retail and food service partnerships with a wide range of businesses ranging from large retailers such as Whole Foods and Trader Joe’s to smaller, independent companies. Part of Red Tomato’s mission is to make its exceptional products accessible to consumers where they shop and eat—supermarkets, natural or independent grocery chains, co-ops, institutions and restaurants with a commitment to local products. According to Michael, the two key questions that potential partners must answer are “Is Red Tomato important to you? Do your customers want our stuff?” The goal is to work toward long-term business relationships; however, there is a recognition that partnerships should begin with a two or three year trial period.

Product differentiation through packaging has become an important focus and requires coordination across the supply chain. Red Tomato has an in-house design consultant who works with farmer partners and others both on packaging design and logistics.

Response to market conditions

All firms that seek premium prices in the market face challenges when the overall economy hits a rough patch. Michael remains convinced that public interest in local products dovetails with consumers’ ongoing desire for higher quality products and food experiences. Furthermore, he believes that the innovative solutions that Red Tomato has developed are particularly important in difficult times:

This troubled economy demonstrates well that the marketplace, left to its own devices, is not likely to manage or correct negative externalities that threaten the future of the supply chain itself, or that threaten the public and the earth. Sustainable value chains of the future must account for and manage both kinds of negative externalities: the ones that affect the players within the value chain, such as farmworkers, employees and consumers, and the negative externalities that affect the general public and the earth, such as pollution, soil erosion, lost farmland, poverty and hunger. Maybe the language of ‘self-regulation’ would speak to people at this moment. If business runs amok, then the rest of us will pay for the bad goods, for the waste, through taxes, lower quality of life, lower quality of products, over the long-term. One way or the other, we’re going to pay.

A longer version of this case study (and related research) is available at two locations:

<http://www.cias.wisc.edu/economics/case-studies-profile-mid-scale-food-enterprises/>

<http://www.agofthemiddle.org/>

The Red Tomato web site is:

<http://www.redtomato.org/>

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Phone: (608) 262-5200 E-mail: ramcnair@wisc.edu, www.cias.wisc.edu. This Research Brief is part of a series. Contact CIAS for other titles. CIAS staff members are grateful for the reviews of this Brief by UW-Madison and UW-Extension faculty and CIAS Citizens Advisory Council members. May, 2010.

