



*PROFILES
IN AGRICULTURAL
ENTREPRENEURSHIP*

**FAIRVIEW PRODUCE AUCTION, INC.
FAIRVIEW, KY**

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It doesn't take long to spot the village of Fairview, KY, when driving east from Hopkinsville on the newly widened Highway 68/80. Since 1924, Fairview has been home to one of the country's tallest monuments—a 324-foot obelisk on the south side of the highway commemorating the birthplace of American soldier and politician Jefferson Davis.

One summer day in 1996, a group of Fairview-area farm families met underneath a park shelter in the shadow of the Davis memorial. The meeting was the result of an ongoing discussion among a few farmers from the Fairview Mennonite community. The farmers thought that the area could support a produce auction similar to successful auctions in Pennsylvania, Missouri, and Ohio. They held the meeting to determine if people were willing to buy shares to support such a venture.

Today, the Fairview passerby will still surely notice the silhouette of the Davis Memorial on the south side of the highway. But another sight may be noticed to the north if one passes by at midday or on a certain summer evening. A line of mule and horse-drawn wagons loaded with fresh produce extend around an open-faced, steel-framed building where a crowd gathers round.

The visitor who turns north at the sign labeled "Fairview Produce Auction, Inc." will hear the chant of an auctioneer over various lots of fresh produce for sale to the highest bidder. Walking into the closed portion of the building, one might observe some buyers already settling their bills at the auction office. Behind them, smaller lots of produce are lined on tables awaiting sale—okra in shallow boxes, various-colored peppers, quarts of blackberries picked in Madisonville that morning, and more.

From the open portion of the building where larger lots of produce are aligned, cantaloupes can be spotted flying through the air some 50 feet from the auction building. Three boys have confidently formed a relay team as a load already sold is transferred from a horse-drawn to a pickup-drawn wagon. Not one melon is dropped.

"Need help to load?" asks a sign posted by the auction office. "Ask the boys....they are glad to help!"

The Fairview Produce Auction serves as a successful example of a community driven, cooperative effort in agricultural entrepreneurship. Organizers are quick to point out that the auction mechanism is by no means a new or universal solution for small-farm produce marketing efforts. In this certain case, though, the Fairview Produce Auction has provided a way for farmers from the immediately surrounding areas—and beyond—to capture the highest price buyers are willing to pay on any given day for produce.

THE IDEA

Under a Shade Tree

"The auction was one was of those things that just started out in a conversation underneath a shade tree," says Harold Eli.

Eli is the Kentucky State University Extension Small Farms program assistant in Christian County. A Christian County native, he has been working for the Christian County Cooperative Extension Service since the first Mennonite families moved to Christian County around 1990.

The Mennonites came from Lancaster County, PA, where commercial sprawl and high land prices were crowding out farmers. They added a new diversity to Christian County's farm families, which already included an Amish community, and brought with them experience in growing commercial produce and marketing it at roadside stands.

Henry Leid, a Mennonite farmer in the Fairview area, had seen the produce auction concept work successfully at Leola Produce Auction in Leola, PA. After a conversation "under a shade tree," he became the champion for the auction's establishment. Leid since moved out of the Fairview area, but he was joined by other Mennonite farmers like brothers John and Wayne Zimmerman. The Zimmermans served on the auction's first board of directors and continue to use the auction to market much of their produce. Along with auction manager Steve Sauder, they provided much of the information used in this case.

Henry Leid was the initial proponent of the produce auction. The idea was nothing new or revolutionary to the Mennonite community; produce auctions are fairly common in areas with large Mennonite and Amish populations (see sidebar). Using these auctions as a model, the Mennonites began to consider the specifications for an auction in their area.

Leid and the others figured the auction site would require about 15 acres and a building large enough to house an auction floor, warehouse, and office. The estimated cost of establishing the auction would be around \$70,000. After the farmers gathered by the Davis Memorial, Todd asked how many people would be willing to invest \$1,000 for a share of stock in an auction company. Enough hands were raised to encourage the leaders to continue with the idea.

One of the people who didn't raise his hand was Harold Eli, the small farm agent in Christian County. Leid had consulted with Eli since the beginning, seeking any support and guidance he might give. Eli had been invited to the meeting that day because he had been a part of the discussion from the beginning. He had even considered investing in the auction, but decided against it based on the price per share. His investment would be his expertise.

"That was out of my price range," he said.

Produce Auctions

There are several produce auctions located throughout the Eastern United States. They are especially popular in rural communities with significant Amish and Mennonite farm family populations.

There are numerous auctions located in Amish/Mennonite areas of Pennsylvania, Ohio, Indiana, and Missouri. There are also auctions not located in Amish/Mennonite communities in Ohio, Maryland, New Jersey, and New York. Generally speaking, produce auctions are concentrated in the Middle Atlantic and Northeastern states and in areas of commercial vegetable production in Amish/Mennonite communities.

The Fairview Produce Auction was modeled after several of the established auctions, especially the Leola Produce Auction in Leola, PA. The Leola Auction has been in operation since 1985. Like other auctions in the Lancaster County, PA, area, the Leola auction draws buyers from nearby larger population centers like Baltimore and Philadelphia.

Amish and Mennonite producers generally prefer to market their produce at auctions. Those who use the auction to market produce for the whole season enjoy the price premiums at the beginning and end of the season that are not always able to be realized at roadside retail stands. In addition, the auction structure offers good growers an opportunity to build relationships with buyers and develop their own "reputation" at the auction.

In Amish and Mennonite communities, auctions also serve as community centers. One Amish family who markets produce at the Leola, PA auction says this:

"Picking and packing always go better at auction day, especially for the children, as they they enjoy going along to the Auction. They can meet with all their vegetable picking friends."¹

Legal Counsel

A five-member group was appointed to serve as a sort of board of directors for the auction until the legal structure for a corporation could be established.

"There was none of us that had enough money to just buy a property and put up a building, so in order to do it as a community, we had to have some kind of legal structure," says one of the auction's first stockholders.

Upon an attorney's recommendation, the group decided to form a Subchapter-S corporation. This type of corporation offered shareholders the option to choose to be taxed as individuals or as a corporation at the beginning of a year. It was a fairly simple legal task to charter the corporation. After the articles of incorporation were drawn up, the first stock offering was made.

FINANCING

Initial Stock Offering

The newly formed auction company made an initial public offering of 72 shares at \$1,000 per share on January 23, 1997. The board figured this would raise enough capital to purchase a 15-acre parcel of land at a cost of \$40,000 and provide \$30,000 for the necessary building.

The spring of 1997 was a wet one, delaying construction on the building. There was a significant amount of unanticipated excavating which needed to be done at the auction site. This added \$5,000 to the project. The decision was also made to erect a steel building, which cost \$5,000 more than originally anticipated.

The auction company was able to realize significant savings in construction costs for the 6,000 square foot structure. This savings was realized because construction exclusively used donated, hand labor from the community. Builders estimate 50 families helped in the construction.

"We needed every hand too, because we didn't use a crane and none of us had experience with steel buildings," says one of the auction's builders.

The building materials may have been unfamiliar, but the cooperative effort was not in a community used to raising a neighbor's barn in a day when needed.

Additional Financing

Even with the savings realized by using donated labor, costs were still greater than projected. This raised the need for a second stock offering. The company quickly authorized the sale of an additional 18 shares of stock to cover the shortfall.

Since the initial public offering, the remaining shares have been sold or auctioned off. Value of the shares has increased dramatically; the last few shares offered for

sale in the summer of 1999 sold for between \$2,500 and \$3,000 per share.

A fire in 1998 destroyed the portion of the auction building which housed the warehouse and office space. The auction does not carry insurance on the building, reflecting the ethic held in the community where it is located. The risk of catastrophe striking this business is thus assumed in full by the auction's community owners. The business also assumes the risk of liability, a significant risk with the volume of people around on auction days.

"I'm not saying it's right or wrong; I'm just saying that's how it is," says one of the Mennonite stockholders on the decision to not carry insurance.

Since insurance did not cover the loss, the auction acquired a bank loan for \$26,000 to help rebuild the space. This time, the builders added rest rooms to the totally enclosed portion of the building.

The auction was repaying the loan without difficulty as of the summer of 2000. Adequate income to meet it operating and capital repayment needs is generated through a 10% commission on produce sales, packaging sales, and two consignment sales held during the year.

REGULATIONS

Like any other business, the Fairview Produce Auction faced the normal building codes and procedures when building and rebuilding the auction site. This section will focus on the regulations specific to the corporation's status as an auction, as well as how the auction company regulates product packaging.

Auction House License

The board initially thought that they could avoid auction licensing by simply using a licensed auctioneer. They subsequently discovered that this was only possible if the auctioneer is also designated as the auction house operator. This designation, however, would have placed control of the auction largely out of the hands of the board of directors.

"The only problem with hiring an auctioneer and having him operate as an auction house operator is that you couldn't fire him," grins one of the early board members.

This caused the directors to decide it was necessary for the corporation to have its own auction house license.

There was no precedent for this, because the Fairview Produce Auction was the only auction in Kentucky to be owned by a corporation.

Upon further inquiry, the board discovered that Kentucky would allow the corporation to hold the license if two or three of the main organizers could pass the test. Three of the board members took the test, thinking that at least one of them would pass it if the others did not.

All three passed, and the auction company had its license.

The auction's full-time manager, Steve Sauder, was recently licensed as an auctioneer. If the auction owners wanted, the auction could operate under Sauder's license. However, the company will still continue to operate under its original license. This continues to enable the stockholders to continually maintain control of the auction through the board of directors.

Packaging Regulations

Many produce auctions have written regulations for how produce should be packaged. The Fairview auction had begun developing written guidelines for how incoming produce should be packaged, but the fire in 1998 destroyed the drafts. Since that time, the auction has developed a sort of unwritten packaging code. It also reserves the right to reject products based on inferior quality or unsuitable packaging.

"We don't enforce anything, we just strongly suggest," says one of the farmer owners who helps with some grading.

Sellers at the auction say that the unwritten code works quite well. Sellers are quick to adopt the form of packaging used in the highest selling lots. The auction also has a number of standard produce boxes on hand for sellers from the community who are marketing small amounts of produce from garden and other production.

Occasionally, though, the auction will reject products due to poor quality or packaging. One example the manager cites is produce that once arrived packaged in pesticide boxes. Another example of unsuitable packaging was a new seller who brought sweet corn to auction in paper pig feed sacks.

"The corn was heating in the sacks and you could still smell the feed smell," says one of the auction's organizers. "I don't think it would hurt if you ate it, but it wasn't very professional looking."

Auction Licensing in Kentucky

In order for the Fairview Produce Auction to start operation, it had to obtain a license to be an "auction house operator." While the Fairview case was a little bit out of the ordinary because the corporation wanted to hold the license, the procedure the auction had to follow is the same.

A written examination must be passed in order to obtain an auction house license in Kentucky. The exam is held four times per year—February, May, August, and November—at the University of Louisville, Shelby Campus. The application deadline is about three weeks before the exam. The fee for the exam to be a licensed auction house is \$100.

Licensed auction houses must complete a form for license renewal each year. This form is mailed at the end of May and is due by June 30 of each year. There is an annual renewal fee required for an auction house to maintain its license.

This and more information on auction licensing in Kentucky may be found on the Kentucky Board of Auctioneers web site.² <http://auctioneers.state.ky.us/>

MARKET DEVELOPMENT

The auction's organizers were sure that three things would result in success of the auction market:

- Building and completing the facilities
- Enough growers committing to bringing their produce
- Quality and packaging suitable to the average buyer

After the construction of the facility was completed, the first auction was held in June of 1997. The auction company netted \$7 from \$775 worth of produce sold.

"The first one was more like an open house than an auction," wryly comments one of the early consignees.

The market grew steadily, for it didn't take long for the auction to catch on with local growers. Several of the auction's organizers committed to selling all their produce through the auction. One of the first board members, for example, closed his roadside stand and marketed his produce solely through the auction. This

commitment from the organizers helped popularize the idea in the community.

The first season saw sales of \$100,000 flow through the auction. In 1998, a complete season, total sales increased by 150% to \$250,000. Total sales in 1999 were just less than \$330,000.

First Customers

The auction had inquiries from as far away as Nashville, TN, even before it began operation. Nashville buyers were in attendance at the first auction, and buyers from larger metropolitan areas as far away as Cincinnati continue to form a solid portion of the auction's buyers.

Many of the purchases, however, are made by individual produce markets or roadside stands diversifying and acquiring their product lines. These are customers live close to Fairview and have formed the bulk of the auction's buyers. There is some buyer turnover from year to year, but new buyers have replaced former buyers at an increasing rate.

"The best advertising we have is word of mouth," says the auction manager.

Auction System Rewards Quality

Sellers and buyers are identified by number at the Fairview auction, as is the case for most larger auctions. This enables buyers to identify high quality producers and results in premiums paid for different numbers. Sauder, the auction manager, notes that a Cincinnati customer will call him up and not only place bids for particular sellers' produce, but will have different prices to pay for each number's produce.

"The biggest eye opener we had in going from a roadside market to auction was in seeing what buyers are actually willing to pay for an item if things are good quality or a little on the scarce side," says one grower.

"I never heard of \$3 (per dozen) corn in Kentucky before I saw the auction . . . of course I never heard of selling cantaloupes for a nickel either. I would just have fed them to the hogs at that price," he adds.

Area supply has resulted in lower prices for certain commodities in good growing years like 2000. Harold Eli and others have helped the auction investigate ways to bring more value for their crops in bumper crop years. The produce auction, however, still allows all the produce offered on a given day to be sold at the highest price

Produce Auction Sale Order: A Profit Factor?

A marketing study sponsored by the University of Kentucky's New Crops Opportunities Center in the summer of 2000 reveals an interesting characteristic of the produce auction market.

The object of the study was to test the preference between fiber pulp and plastic clamshell blackberry cartons. A producer who regularly uses the Fairview Produce Auction to market blackberries agreed to market them in both kind of containers and record the prices for each.

Data collected from 10 auctions in a three week period revealed an average price difference less than \$.10 per quart between the two packaging types. This indicates no overall willingness to pay more by buyers according to package type.

However, there were always weekly differences in price. For some weeks, the difference was as much as \$.80 per quart between packaging types.

It turns out that in at the weeks where the prices differed by packaging type, the higher priced blackberries were those which sold first in the sale order. The blackberry lots were sold side by side, and the producer alternated which type of packaging sold first on different days. The first-selling lot nearly always brought the highest price.

For consigners at the produce auction, this may mean getting the produce picked and to the auction early on auction day not only makes for shorter lines, but perhaps a higher price.

Source:

"Blackberry Packaging and Produce Auction Prices"
*Tim Woods and Matt Ernst, September 2000.*³

bid—even when markets are flooded with product like the cantaloupe markets were in 2000.

"We always go home with an empty wagon," says one of the auction's faithful sellers.

GROWTH MANAGEMENT

The Fairview Produce Auction will probably not be able to grow fast enough to meet the increasing market for produce in its area. Product demand is diversifying; flowers and ornamental sales at the auction increased

dramatically in the spring of 2000. In addition, more farmers will shift from growing tobacco as Kentucky's agricultural base shifts toward tobacco alternatives. A continual increase in the number of buyers should also guarantee the auction's growth.

There are also other possibilities for the growth of the auction and the produce industry in Christian County. These include establishing produce grading, packing or processing facilities--perhaps even on the auction's land. Amid all these possibilities, the Fairview Produce Auction believes that two principles--consistency coupled with slow and steady growth--will guarantee its success.

"Consistency"

Consistency, believes auction manager Sauder, is the key to the continued development of the auction market. The number of buyers at the auction has increased with auction volume has increased over the past three years, as has the amount of produce offered.

Sauder says the key to continued success is for both buyers and sellers to consistently offer and purchase similar quality and volumes. One specific way this area will be improved is in development of written packaging standards for the auction.

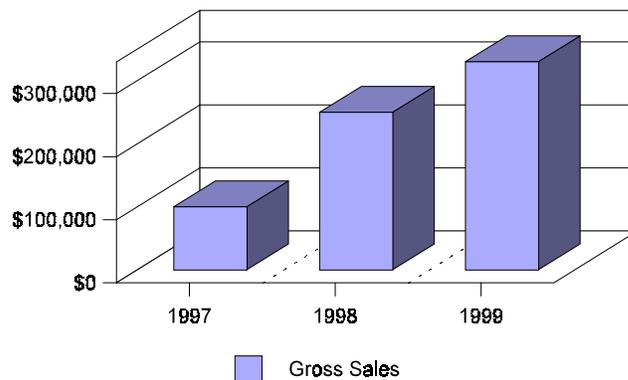
Another way the auction has worked to maintain consistency of products is to offer more auctions during the produce season. In 2000, it shifted from the traditional morning auction to also offering evening auctions twice during the week.

The general opinion is that a good mix of the two auction times helps satisfy both buyers and sellers--the morning auctions at 10:00 suit most growers better and the evening auctions beginning at 5:00 suit many buyers better. The 2000 season consisted of morning auctions on Monday and Thursday and evening auctions on Tuesday and Friday.

The auction expects consistency not only from its sellers but also from the buyers. Like other businesses in Christian County, the auction has also experienced a few problems with people writing bad checks.

"We try to be fair to everybody and expect everybody to be fair to us," says Sauder noting that the auction chooses to talk things out with bad check writers and does not use collection agencies.

Fairview Produce Auction Sales



Slow, Steady Growth

The diversity of the auction's product line has also increased along with total sales. Spring auctions now feature a large amount of flowers and bedding plants. Sauder guesses that this category could eventually outweigh food produce in terms of percentage of the auction's sales.

Producers in the community have responded to the auction's season-long demand, notes the small farms assistant Eli. Eli provides producers with production information and support as they make decisions to diversify their production. Differently maturing varieties have been planted and more hothouse and greenhouse production has occurred as producers try to capture the higher prices available on either side of the peak season. The potential for increased profits has motivated many to diversify and expand production, which helps product volume at the auction to grow.

The addition of a full-time auction manager has greatly benefitted the auction. The manager is able to oversee the busy produce season, as well as the off-season auctions featuring fall production, hay, straw, firewood, and related items.

The auction also features more than just produce sales. Two annual consignment sales feature horses, horse-drawn equipment, and smaller tillage implements. The auction never sells licensed vehicles or firearms.

The Fairview Produce Auction has also helped the growth of the community. Some farm families have moved to the Fairview area with the intent to use the auction as their primary market for fruit and vegetable production.

Some of the auction's organizers suggest that instead of the community outgrowing the produce auction, growth will give rise to something else not too far away. Eli suggests the possibility of packing/processing facilities or other produce handling and marketing mechanisms.

CONCLUSION

The Fairview Produce Auction has become as much a social as an economic institution in this community shadowed by the Jefferson Davis memorial. It has provided buyers and sellers from a wide radius with a place where quality is rewarded and sellers might develop their individual reputations.

But as the auction's manager notes, the auction has not been an easy answer to marketing.

"Everything we gained had to be done with a lot of effort," he says. In this case, that effort all came from within the community where the auction is located.

Without widespread community support (or a pile of grant money), he adds, a produce auction system like Fairview's would probably fail. Prices at the auction are good, but better prices could possibly be obtained through other kinds of marketing.

After four years of operation, the Fairview Produce Auction, Inc. has proven to be a successful marketing mechanism. Perhaps most important, it has offered area producers a local outlet for their produce which neatly fits in with the community.

Which may be the best lesson in agricultural entrepreneurship from the produce auction that was birthed in the shadow of the obelisk overlooking Fairview.

Notes

¹ The Warren Nolt Family, "Why Do We Grow Our Produce the Family Way?" article in *Growing Produce Family Style*, Raymond J. Yoder, ed. Homer Produce Auction Web Site <http://www.bright.net/~fwo/Prod.html> September 2000.

² Kentucky Board of Auctioneers Web Site, September 2000.
Examinations: <http://auctioneers.state.ky.us/exams.htm>
License Renewal: <http://auctioneers.state.ky.us/license.htm>

³ Woods, Tim and Matt Ernst. "Blackberry Packaging and Produce Auction Prices." *University of Kentucky Department of Agricultural Economics*, September 2000 Draft.

Acknowledgments

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