A Case Study Series

PROFILES IN AGRICULTURAL ENTREPRENEURSHIP

CHUKAR CHERRIES PROSSER, WA

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Introduction

Take Wine Country Road west out of Prosser, WA, and you'll pass right by the headquarters of Chukar Cherries. The home of Washington's 1994 Small Business of the Year houses a small retail outlet, corporate offices, and the production floor where Chukar creates its line of specialty cherry and fruit products.

Stop at Chukar's store on Wine Country Road—or at their other two retail outlets in Seattle and Pasco, WA—and you'll be able to sample plenty of the company's products for free. The dried cherries, chocolate-covered dried cherries, trail mixes, fruit sauces and other products are the fruits of an on-farm enterprise that began in the 1980s.

The president of Chukar Cherries, Pam Auld, admits that she and Guy Auld didn't have the best idea of what they were getting into when they sold their Seattle laundromat business and bought Washington's largest cherry orchard in the mid-1980s.

"I think we were idealistic and I think it was beautiful," she says of their move from suburban Seattle to a ranch in the scenic Yakima Valley.

Both Pam and Guy liked the idea of living away from the hustle of the city, of going back to the land. They each had business and entrepreneurial skills, but had never cared for anything like the 8,000 cherry trees that were contained on their new purchase. They had little idea that their ranch would soon birth a successful specialty food company that would have a major effect on their lives.

Chukar first sold dried cherries packaged in a box designed by Pam 18 years ago. Since then, the effort to utilize smaller "wasted" cherries from the Auld ranch has grown far beyond its original box. Today, due in large part to Chukar's efforts, dried cherry products are more than just a favorite snack of cherry orchardists and their neighbors. Dried cherries have become a part of the burgeoning specialty foods market.

Chukar has developed its business around targeted marketing, targeted networking, "good guesses," and consistently thinking outside its existing business situation. This case overviews Chukar's growth and development, focusing on Chukar's continued efforts to think outside its box to grow its business.

The Idea

During her 20s, Pam worked on a variety of entrepreneurial ventures in Seattle. She only made enough money to support herself, not having the knowledge to develop a one-person venture into a larger business organization.

Pam continued some business endeavors after she married Guy Auld. Guy was a program director for the Seattle YMCA. He was from a small South

Chukar Cherries Snapshot

Headquarters:	Prosser, WA
Founders:	Pam Auld (current president) and Guy Auld
Began:	Late 1980s when Pam began experimenting with surplus cherries from Auld Ranch.
Employees:	15 Full-time, year round employees plus several part-time and seasonal employees
Marketing:	3 retail stores, mail order, wholesale, corporate, Web (www.chukar.com)

Dakota town and wanted to farm. The Aulds began looking for a farm to purchase during weekend visits to Washington's Yakima Valley in the early 1980s. They found the farm they were looking for in 1984.

"We bought what was then the largest cherry orchard in the state of Washington not knowing how to farm at all!" remembers Pam.

The Aulds' purchase of the 100-acre, 8,000 tree cherry orchard was partially financed through the sale of their small laundromat business. Guy did most of the farming while Pam spent a lot of time caring for their three children.

As time passed, one thing about the cherry operation particularly bothered Pam.

"With 8,000 trees, there was a lot of waste," she says.

It was easy for the orchard workers to miss picking a tree, only half-pick a tree, or have to pass a tree by if it had ripened too quickly. But Pam quickly picked out something about the cherries left on the trees.

"I noticed a month or two later that if a cherry was still on the tree, it was really good—it would dry right on the tree," she says.

The Aulds had heard about dried cherries from community members who asked about buying cherries to dry. Pam thought this would be a good use for some of the orchard's "leftover" cherries. She wasn't sure if dried cherries were on the market anywhere, but she had a hunch that they would be popular outside of cherry-growing areas.

Why Chukar?

There's a lot in a product's name. A good name can make a product; a bad name can break it. In the case of Chukar Cherries, a local bird and a local sporting event made a great choice for the new company's name.

The chukar is a game bird found in abundance in the Pacific Northwest and Prosser area. In fact, Prosser is home to the only chukar hunting dog competition in the United States, the National Chukar Shooting Dog Championship. The annual competition is held in Prosser each spring.

The Aulds decided to put the two together—Chukar and cherries—and added an attractive black and white sketch of the game bird as their company logo. The result was a catchy product name utilizing something unique to the company's locale.

Pam's hunch was confirmed after a visit from one of Guy's relatives who lived in Manhattan, NY. The guest ate most of the dried cherries Pam had on hand and went back to Manhattan to search the city's famous delis for dried cherries. The search was fruitless, so Pam decided to try to do something with their orchard's "by-product."

"At that time, nobody had dried cherries," she remembers. "So I started out with a little box and it was kind of my project."

All About Marketing

Pam says she had a completely lacked understanding about how to create a strategic business and marketing plan. Even so, she realized early on that her venture would not be so much separated by the product as by how the product was marketed. This market-focused attitude helped distinguish Chukar Cherries from the company's start.

"The more I'm in business, the more I realize that—that it's how you present (the product) and how you can use it and the story—it's not just a dried cherry," she says.

A willingness to ask questions, to learn and to study what she didn't know helped Pam rapidly expand Chukar's business beyond her first box. The company moved to a location on the edge of Prosser two years after the Aulds started to dry and package cherries at their ranch. This is its present location, where it continues to expand manufacturing a wide assortment of dried berries, chocolate-covered berries, and fruit-base sauces and preserves.

Marketing and Product Development

A Changing Market

The market for dried cherries as a specialty food item was wide open when Pam started working on her "project" in the late 1980s.

"There was nobody out there other than Michigan and we didn't even know about Michigan," she says.

Michigan cherry producers had benefited from the infusion of state monies to establish and develop producer co-ops. Since sour cherries don't ship well in the fresh market, the Michigan growers started to market dried fruit—a great idea, according to Pam.

"Originally, they sold their dried cherries through a specialty food company similar to Chukar called American Spoon Foods," says Auld.

American Spoon Foods had the sole distributorship for Michigan dried cherries. However, Michigan farmers soon recognized the market potential for the product. Through a lawsuit, they took the distributorship away from American Spoon Foods so they could swell the market themselves.

"That really changed the market—but markets change all the time," says Pam.

Much of the demand for specialty foods in the 1980s came from small, boutique-type stores. These stores, still a large part of Chukar's wholesale business, held the lion's share of the specialty foods market. This would change in the 1990s as large retail discount stores began to stock and offer a wide variety of specialty food and gift items.

By the late 1990s, the specialty food trade shows that had formerly been dominated by companies like Chukar would include large retailers and food companies. But when Chukar started production at the ranch in 1984, the dried cherry market was yet to be created.

Packaging: A Market Development Concern

The market was wide open for growth—creating problems as well as benefits for the smaller, emerging companies in this market. One of the biggest problems was acquiring supplies.

"You didn't know how to get anything—it was very undeveloped," says Pam. "You had to source jars, you had to source bags, you had to source packing supplies."

In the 1990s, the increasing popularity of specialty foods and advances in packaging technology eased most of these obstacles. Pam says this is evidenced by the changes in the exhibitors at the international specialty food trade shows Chukar attends regularly.

"When I use to go to the international specialty food trade shows, there were people like Chukar Cherries—that was all who was there. Now you've got Hormel and Hershey's and they've all got specialty foods divisions," she says.

In addition to a significant presence in the specialty foods market, the Hormel's and Hershey's' now have the capacity to imitate or develop successful specialty food lines on their own. However, advances in technology—especially packaging design—have cleared the way for smaller companies to remain in the fray of new product introduction.

"When I started, you had to cut and paste everything—typeset, cut it out, get the illustration done, paste it," says Auld.

"Now, everything's done through computers, so the sophistication of the packaging is enormous. What happens now is the specialty foods trade shows are full of huge companies with specialty foods divisions.

"Then there's people like me, like Chukar, who have managed to compete in certain niche markets. And there's an awful lot of people who go in with a product and real sophisticated packaging—but they're out of business in a year or two."

Finding the Right Mix

One thing Chukar did wrong in the early stages of market development, according to Pam, was to offer too many new products when they first got started.

"That cost the company a lot of money," she says. "Packaging is enormously expensive."

Even with current advances in packaging design technology, new product development is still expensive. $30,000 ranks as an inexpensive amount to develop a new product line – a hefty amount of money for a small company like Chukar.

Business and Supply Structure Decisions

In addition to product packaging and market development, there were other challenges that the Aulds encountered early on. One of these was how to structure the business into the Auld cherry operation.

Like other farmer entrepreneurs, the Aulds had to decide how to incorporate their new enterprise into

their existing business structure. They chose to set it up as an entirely separate entity. They found this was an important decision for business financing, evaluating their cherry drying enterprise separate from the farm business, and making other business and personal finance decisions.

Another challenge the Aulds encountered was moving from farm production and marketing to a food production/manufacturing setting.

"Neither one of us had ever worked in a company," says Pam. "A lot of the systems were brand new concepts."

Implementing new systems included finding the necessary equipment. Pam remembers spending $15,000 to purchase their first new cherry dryer—an amount seeming an outrageous amount when a quality piece of used equipment is easily located on the Web. She also admits that neither she nor Guy had the manufacturing background they needed, and points to this as an area where many farm entrepreneurs can use additional help (see sidebar for information on one way Chukar solved this problem).

There are many implications beyond those first anticipated for choosing a proper business structure. Pam notes that having Chukar as a separate entity from the ranch proved important when the Auld marriage was dissolved. This structural choice made it easier for both Guy and Pam to continue to have an ownership interest in Chukar.

Supply Chain

Another reason to keep the dried cherry business separate from the farm was to keep track of the raw fruit used for drying.

The Aulds initially thought they could use cherries from their ranch to supply the cherry drying enterprise. But they found that the comparatively larger cherries produced on their ranch, while ideal for the gift and Japanese markets, were not necessarily the best cherries for drying.

"When you dry, it's better to dry smaller fruit because it fits into the pitter cups better—and there's a lot of it out there," says Pam. "It's rejected, you don't get that much money for it in the packing house."

Moving Outside Your Box

Pam Auld says that, while basing your business in a rural area has many benefits, getting out of your area and outside your box on a regular basis is essential. She points to what wholesalers tell the company at trade shows as an important source of information.

Pam also encourages budding entrepreneurs to not be afraid to go into markets other than those that are "your own," and points to two of Chukar's product introductions as evidence of this strategy's potential success.

"We were told that hikers won't buy expensive dried fruit…the public won't buy chocolate covered dried cherries because they don't know what they are," she remarks.

"Now we have so much competition (in those markets) we don't know what to do with it."

Chukar's cherry purchases have benefited many of the area's smaller cherry producers who are unable to supply the volume required by a fruit packinghouse.

"There's a lot of smaller growers around that have maybe two acres," says Pam. "We've ended up being a really good buyer for those smaller folks."

Purchasing smaller quantities allows the company to better evaluate the total quality of the cherries. Chukar can also process the amount purchased on a daily basis. This eliminates the need for larger, expensive packinghouse facilities—and provides the company with a continual supply of fresh product.

Chukar currently sources cherries from a 50-mile radius surrounding Prosser in the Yakima Valley. It also obtains some cherries from the Wenatchee area further north, where the growing season is about a month later. Sourcing product from the Wenatchee Valley is easy to do since this is a regular Yakima valley produce truck route.

Marketing

Getting the Word Out

Chukar has three primary market segments: wholesale, retail over-the-counter, and retail catalog and Web sales. Listening to each market segment—and integrating what the company hears into its overall marketing structure—has been a key strategy used by Chukar since the company's start.

Establishing a retail store in the same facility as their manufacturing plant helped Chukar begin listening to their customers early on.

"We are surrounded by the wine industry," says Pam.

The wine industry is an emerging industry in the Yakima Valley. A large number of tourists come through the area for wine tasting tours like the annual Yakima Valley Spring Barrel Tasting.

Offering Chukar samples at some of the wineries, as well as having a retail store where tourists could stop, helped the company expose its products to a large consumer base early on. Input from these consumers also provided some valuable market research--Chukar was able to find out what real consumers thought about its products for virtually nothing! This research would have otherwise been very expensive to conduct.

Chukar's original retail showroom is still visited by tourists to the Yakima Valley. However, the company's key retail outlet is at Pike Place Market—Seattle's top tourist attraction—where visitors to Seattle are able to taste Chukar's free samples.

"It's a great place to get names," says Pam. "A lot of the catalog base comes from there."

After opening the Pike Place store, the company tried adding a few additional retail outlets. They had as many as six stores in operation at one time, but closed two stores in 2000 after "a whole lot of evaluating." Pam says the company prefers to use the stores as an outlet for future direct sales.

"They cost a lot, take a lot of management, and they're very distracting. We can do more on the catalog and Internet and keeping the stores which really supply names and revenue and take less management," says Auld.

Due to the trifold nature of Chukar's marketing strategy, Pam relies on a diverse group of marketing and public relations consultants to help the small company maximize penetration into the retail and wholesale markets.

Building a Team

One of the major management and marketing strategies Chukar has used is to assemble a team of freelance professionals and consultants as resources for the company. Pam points specifically to several individuals who have helped her grow the company:

Focus: Web Marketing

The major marketing development for small, specialty foods companies in recent years has been Internet sales. Chukar had a brochure-type Web site for a number of years, but then upgraded the company's site in mid-2000 to offer full on-line ordering and sales. Auld says it was probably good that the company didn't invest in the Web right away.

"We just didn't have the money to throw out that a lot of people did, especially big companies—and then they had to close those divisions because they were so expensive," she says.

Auld says that even though Chukar saves a significant amount in processing costs from Web sales, the company still views the Web as an adjunct marketing tool. The company's primary sales still come from its direct mail catalog. This catalog is handed out to many people who taste the free samples which trademark Chukar's retail stores and sign up for the mailing list.

"I think that's the key—it's part of the whole package," she says of the Web.

Even with their updated Web site, much of their sales still occur to the more than 4,000 small, gourmet food and gift shops which comprise the bulk of their customer base.

"It's an option and it's an option we want people to go—but it's not the whole thing," she says of the company's Web site.

"It's another niche marketing area."

- *A freelance public relations consultant who Pam met through the International Association of Culinary Professionals*

"I am not a culinary professional, but I gain a lot of access and information from association with chefs, people who know how to write recipes correctly, and cookbook authors," says Pam.

The consultant does direct mailings with copy provided by Pam each month.

"You can't get anything done when you're pulled in millions of directions. So basically what I've done is have a person who's in charge of keeping the focus of the company—that's what she's going to do," says Pam.

Chukar also hired a summer intern through a Washington State University to write a summer promotional plan for the company.

- *A retired top-level manufacturing CEO/CFO*

Pam met her key management consultant while she was serving on the Washington Manufacturing Services board.

"I can't hire somebody (full-time) who has the qualifications he does to help me manage budgets, cash flow, deal with personnel decisions, planning, strategic planning…but I can pay him a fee per month to work through phone, fax, and email—and I can get a lot done with very little money."

- *A direct marketing consultant*

Chukar contracted with a direct marketing consultant on a monthly basis to help grow the mail order catalog and customer list management end of the business.

- *A freelance digital artist*

"He puts together the catalogs, did the art direction for the web site, does postcards, does all the digital work for packaging and labeling—getting it into the computer, editing it, emailing it to the printer," says Pam.

Pam notes that sticking with the same freelance consultant has helped her save money over using a design firm that might charge two to three times what she can get done with a consultant.

"Over the years, I guess I've developed sort of a team of outsourcing," says Pam.
Sometimes, a position that might seem to be initially outsourced turns into a position in a small business.

"We've always had to have a computer person on staff because I can't go 45 minutes away and pay 45 bucks an hour to get somebody in here to fool around with things," she says.

Having a staff MIS person, in addition to its 14 sales and production personnel, helps Chukar keeps costs down in customer mailings, shipping, and everything else involving computers.

"I think the best thing I have going is a team," Pam says of her management strategy.

Capitalization

"Back when we bought the ranch and started drying, we didn't know anything about dryers. We actually paid to have dryers made. The first one cost us $15,000—well that's a lot of money!" says Pam.

Pam says that the key financing lesson she learned in Chukar's early days was that you can never plan too much.

"Spend at least a year planning it and be prepared to decide it's not going to work," she says.

The Aulds were fortunate to obtain $45,000 in seed money from a relative to start the cherry drying business. In addition, they obtained several SBA loans and an adequate annual line of credit from local lenders.

Pam notes that there are fantastic resources available through the state universities and Small Business Administration that can really help entrepreneurs stringently think through their business plan. Pam says that the Aulds looked at several potential lenders at the beginning of Chukar's, but found the SBA to be the best resource.

"Working with the SBA forces you to detail out everything to the point you want to puke…but that's not so bad," she says, emphasizing that you can never plan too much early on.

The Aulds were able to obtain initial financing through the Ben Franklin Revolving Loan fund. They were able to get a second lien against the business when they made some bad decisions. Pam says that was a good experience; she eventually ended up being on the board of the regional economic development and lending agency that administers these loans.

"Just because you can get the money doesn't mean it's a good idea; just because you can't get the money doesn't mean it's a bad idea," she says.

Indeed, what ultimately makes a business idea work are the execution and decision which go into it—not the ability to get the money, she reiterates.

"A big lesson I've learned is that money doesn't necessarily solve everything. A lot of times you think if you can get the money then, yeah, it must be a good idea—that's not true," she says.

In general, Chukar finds borrowed capital too expensive to finance growth. Consequently, the business is currently using capital generated from its profits to expand its operations.

Regulations

Like any other food company, Chukar has to deal with the normal run of food regulations applicable to any food manufacturer. Pam points to one particularly positive regulatory highlight at the company's beginning.

"We had a Department of Agriculture inspector who was very positive about what we were doing," Auld says.

There was nothing that could go wrong with the dried cherry product, other than dirt getting on it, that would hurt the consumers. Pam says the inspector worked with them, constantly informing where the Department of Agriculture would like to ultimately see them.

The inspector's patience paid off. Eighteen months after the business started, the Aulds moved the cherry drying enterprise to Chukar's current facility.

Relationships

One of the key considerations for a startup is the kind of relationship it has with its lenders and community. When listing her most important assets during the growth of Chukar, Pam Auld points to two of these kind of relationships.

First, the company maintained a good relationship with its local lender. This was especially important in obtaining renewals of the annual credit line. One banker points out the importance of this.

"Small businesses need to look upon their lender as a true partner," says Barry Sturdivant, a Vice President at Sanwa Bank's Chino, CA, Commercial Agribusiness Banking Center.

Pam says Chukar also maintained an open line of communication with its local lenders.

"Communication is everything because it builds the trust needed to create a shared vision," says Sturdivant.

The company also maintained a good relationship with the Port of Benton Commissioners. A Port is a geographical tax base with the mission to develop the economy of a specific area. It is supported by taxpayers and has elected commissioners.

From the beginning of Chukar Cherry Company, Inc. until the present, the company received reduced rent and community support through the Port of Benton County. In exchange, Chukar is mandated to create solid jobs.

Dealing with Fines

Auld says that having a Department of Agriculture inspector who was willing to work with the fledgling food company was an early victory was an early regulatory highlight. She cites a recent incident as an example of a regulatory heartache.

Chukar has maintained a stainless food and manufacturing safety record until a fine from Labor and Industry for purported safety violations in early 2001. When Washington Labor and Industry showed up to inspect Chukar for safety and fined the company for safety issues, the company initially contested the fine. However, Pam found it was easier and cheaper to simply pay the fine and move on.

"We were probably on their list," she says. Chukar belongs to a wide array of large, umbrella organizations including the Washington Restaurant

Association. Although Chukar is not a restaurant, this organization provides some good benefits for the food manufacturing company—including an annual kickback to its members of several thousand dollars. Although Chukar is not a restaurant, they appear to have been subjected to what is a relatively routine occurrence in the restaurant industry.

Washington is a highly regulated state for small businesses. Chukar faces the same requirements that also frustrate other small business owners.

"The best advice I can give is to join your state's small business association so that you can figure in the regulatory expenses as you plan your business," says Pam.

Pam says that sometimes the cost to conform to Washington regulations is so high that Chukar has considered moving the business to another state. She cites Washington's high minimum wage, high required employee tax, and the possibility of a future "ergonomics" labor requirement as factors contributing to this consideration.

For now, though, Pam and her team have decided to stay put in Prosser.

Moving Forward

Today, Chukar Cherry Company, Inc. enjoys a reputation for excellent products and excellent business management. In addition to being named the 1994 Washington Small Business of the Year, Chukar received 2000 Washington International Trade Awards for Outstanding Product Line and Outstanding Savory Condiment. Pam has also won several local business management awards.

Chukar reports 5% annual growth over the past three years. Tight management and slow growth have allowed Chukar to stabilize the business and upgrade using profits—as well as lower expenses.

As a well-established niche player in the specialty foods market, Chukar will continue to utilize sound, team-style management to capture its piece of the specialty foods pie. But this strategy is still focused on marketing the company's product line.

"We realized early on that it wasn't the product, it was the marketing," says Pam.

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