

Review of Existing Produce Auctions

Agricultural extension agents and managers of US and Canadian produce auctions were contacted in April 2008 in order to compile detailed information regarding the operation of produce auctions. Interviewees were asked about: business ownership, auction logistics, growers and buyers, infrastructure, and their advice for a new produce auction.

SUMMARY

- Business ownership is typically incorporation (S Corporation or Limited Liability Company) or co-operation. Partnerships and sole ownerships are less numerous.
- The use of auctioneers is the main method of selling produce. The Vineland Produce Auction in New Jersey is the only auction that uses an electronic clock.
- Auctions are held either in the morning or evening, one to six days a week. The ideal duration of an auction is 2 to 3 hours, which depends on the speed of sales and the amount of produce available.
- Lots are usually sold from large to small. Table lots (retail sales) are expensive to sell, but help to introduce new growers and buyers to the auction. Commission rates range from 8-10 %.
- Quality is the most important aspect of the auction. Good quality produce will attract buyers and create a reputation for the auction.
- Occasionally, consignment auctions are held in addition to produce auctions. They can provide extra income to the auction and serve community needs.
- Amish and Mennonite farmers are the majority of growers in many auctions, and farm markets, resellers, roadside stand owners, small grocery stores, large chain stores, wholesalers, and restaurants are the most common buyers. Several auctions have order buyers, who act as brokers for buyers who cannot attend the auction.
- The amount of land occupied by the auctions varies from 3 to 30 acres, and the building sizes from 7,200 to 130,000 ft².

BUSINESS OWNERSHIP

Existing produce auctions (PA's) are S Corporations (in which shareholders (<100) are allocated corporate losses or gains according to their level of investment), LLC's (Limited Liability Company), Co-operatives, Partnerships or Sole Ownerships. Most PA's have a board of directors, most of which meet on a monthly basis. The Homerville (OH) PA, which is owned by a father and daughter partnership (manager and auctioneer, respectively), has an advisory committee that is made up of seven members of the produce auction. Even though the committee has no say in financial matters, the manager insisted it was vital to the success of the auction to listen to what members have to say (important for grower confidence). For corporations and co-ops, the board of directors runs the show and decides on the annual return on investment. In many auctions, growers are the sole or majority owners/members/shareholders. As Nelson Wideman of Elmira (ON) says, growers are the ones who pay to sell at the auction, so it's important they have a voice.

According to Nelson Wideman, forming a Canadian corporation would limit the number of people involved, so his group decided on a co-op to enable more participation. Membership shares (65 at the moment) are valued at \$1000 each (one per voting member) and membership is limited to growers. In addition, they have Class A shares (\$10 each) that anyone can invest in. Members receive patronage returns based on their annual volume of business (about 1%) and shareholders receive dividends based on a flat percentage (usually around 5%), depending on their level of investment (# of shares). There haven't been problems with participation – people have been willing to work together, which is a characteristic of their Mennonite community.

The Vineland (NJ) produce auction is a co-op and pays 2.5 % dividends. The Lebanon (PA) produce auction grosses \$1 million in annual sales and has 25 shareholders. To start their auction, they sold \$200,000 worth of shares (\$1000 each). The Weaverland (PA) auction has 33 shareholders in its S corporation and 9 members on its board of directors.

Between the Weaverland and Leola auctions in Pennsylvania, which are 6 miles apart and two of the most successful auctions in the US, they gross approximately \$10 million.

Auction managers and extension agents both mentioned the positive economic effects that can occur in a rural community as a result of a successful produce auction business. An extension agent from Ohio estimated that when \$1 million is spent at a produce auction, \$10 million is distributed in the community. The manager of the Homerville auction mentioned that millions of dollars were spent in his area because of the produce auction, multiplying produce auction sales 5 or 6 times in the local community.

LOGISTICS

Auction Method

Every auction uses auctioneers. Only the Vineland auction in NJ uses an electronic clock, which was installed in 2002 (each transaction or sale takes approximately 20 seconds). In Elmira (ON), the auctioneer is the same since the beginning and is hired on a yearly basis. Other auctions have found it hard to find a suitable auctioneer, which has been a trial and error process. An important role of the auctioneer is to keep the pace moving and know produce well to start the bidding at a reasonable price. Many auctions paid their auctioneers an hourly rate (which ranged from \$25 to \$75 per hour).

In addition to the auctioneer, there are a number of other people working during the auction. Depending on the size and set-up of the auction, there could be 3 to 5 people keeping things moving: the tag reader, the clerk who records the grower and buyer numbers and the sale price, a runner (could be a child) who brings the clerk ticket to the office, and 2-3 people in the office recording the tickets and getting bills ready for buyers. In general, it can be hard to find good help for a few hours a week. Some positions are volunteer-based and others are remunerated, which depends on the auction. The Homerville (OH) auction also has a 'Dockwalker', who is a large and friendly Amish man whose role is to greet people, hand out market reports, direct trucks to their place at

the dock, sort out box mix-ups, etc. This is important at their auction since dealing with people can be a big challenge and having this person makes for a smoother auction.

Some auctions do everything by hand and others have computerized auction software, which drastically reduces errors and prevents the auction from losing money (one auction was only making 3-4% commission instead of 8% before they had a computerized system). Still, there can be many errors during transcription of clerk tickets into the computer since there are so many numbers and the auction is taking place at such a fast pace. Buyers must pay on the day of sale. Few auctions offer credit, and are very careful when they do. Frequently, growers pick up their cheques at the following auction (within one week of sale).

Speed and duration of the auction

The speed of the auction is generally a function of its size. If it has a relatively small number of growers and buyers, it will not take more than a couple of hours. In Elmira, auctions take 3.5 to 4 hours (this seems to be the time limit for buyers). Large and well-established auctions such as Leola in Pennsylvania (which has 3,000 registered growers and 750 registered buyers) can take 2.5 to 3 hours in the shoulder season, but 5.5 to 6 hours in the summer with 2 or 3 auctioneers. However, the manager of the Homerville (OH) PA maintained that an auction should not take longer than 2.5 to 3 hours since buyers may start to leave or people will start to get tired, and prices can go down. They keep track of how many seconds each sale takes and the auctioneer speeds up, if needed, to adjust to the amount of produce lots.

The speed of sales also depends on how fast buyers make decisions. Auctions are fast when buyers know how much product they want and how much they want to spend. Auctions have speeded up as buyers have gotten used to the auction and were encouraged by auctioneers.

Some days of the week are busier than others. The smaller auctions are held two to three days a week in mid-season, while the larger auctions take place six days a week (Monday to Saturday). Several managers of large auctions told me that Tuesdays and Thursdays are the busiest days (perhaps because growers think there are more buyers who come on those days). Also, that there are more chefs or buyers from restaurants on Mondays, when restaurants tend to be closed and there is the opportunity to come to the auction. On Fridays, there could be more homeowners buying produce in bulk for canning and freezing (especially #2 produce).

Auctions are either held in the morning or the evening. Typical start times range from 8:30 to 10 am and 5 to 7 pm, depending on the season and estimated length of the auction. This is an important consideration because it affects when growers harvest their produce. For the morning start times, it is assumed that growers harvest very early when it is still cool (sometimes in the dark). Although, it is also more likely that produce is harvested the previous day and may not be as fresh for the auction. One manager argued that an evening start time was better since growers can harvest in daylight at minimum field heat (packing and sorting under cover in a shaded area), resulting in fresher produce.

Produce Sales

Usually large quantities of produce are sold first and small quantities last. An exception is the Homerville (OH) auction, where the order is as follows: table lots (which are very popular at this auction), drive through, bins and pallet lots (full pallets), carts (2-10 boxes), pecks rows, #2 produce and then non-produce (boxes and other farm-related items).

Wagons and truckloads (of sweet corn, pumpkins, tomatoes, melons, etc.) are sold as drive-through lots (July-October). Growers line up in rows and the order is chosen at random by a lottery system (ex. rows 2 and 7 first, 10 and 3 next, etc.) to avoid people racing to get there first. For lots, it could be first come, first serve or a lottery system. Many auctions let growers place their produce where they want. According to the

Homerville (OH) manager, it is more important for growers to be consistent in the placement of their products of the floor than being first, so that growers get to know their number (grower's names are not written on tags, only their permanent auction number).

Often small retail sales, otherwise know as table lots, are sold last. These are sales of 1 or 2 boxes at a time. All managers who sold table lots said they lost money on them since they are small sales (it costs more to sell the item than what they make from the commission of that sale). However, many auctions hold table auctions for the benefit of 'agri-tourism' (tourists, homeowners buying small lots), and small growers starting out and gardeners, who have extra produce but not enough to sell in a lot. Many times, small growers and buyers of retail lots have become larger commercial growers or buyers. The overall conclusion is that although retail sales are expensive for produce auctions, they provide long-term benefits by attracting people to the auction and introducing smaller growers and buyers to the auction method.

Nelson Wideman of Elmira, ON mentioned that you need a \$20 sale to make any money for the auction (based on a 10% commission). Some auctions use strategies to encourage people to sell bigger lots (instead of small retail lots), such as charging \$0.25 per box on top of the regular commission rate or charging a \$10 registration fee for a seller number (which some people end up sharing with friends or neighbours to buy bulk produce for canning).

Price fluctuation is an integral characteristic of produce auctions. Depending on the auction, prices can be more variable than wholesale warehouses (where the price can apparently be the same for a month). Managers insist that the produce is fresher and of better quality at the auction. At the Lebanon PA, prices were stronger last year than previous years and the manager attributed this to consumers starting to place a higher value on local produce. He expected this trend to continue as gas prices go up and shipping costs rise. Another manager mentioned that the degree of price fluctuation is reduced as the auction gets larger.

The most important aspect of a PA is quality - almost every person I spoke with repeated this. If the produce sold is of high quality, it will give the auction a good reputation and attract buyers from many places. For instance, Leola (PA) has been established since 1984 and buyers come from as far as Connecticut, Virginia and North Carolina because it's known for exceptional quality. Also, good quality produce keeps prices more consistent throughout the season. Wilmer Hoover of the Lebanon (PA) produce auction mentioned a grower who sold \$60,000 worth of tomatoes since he was a very good grader and had high quality product and good reputation. In the middle of the summer when tomatoes averaged \$6/box, he would still be getting \$10-12 per box.

Commission

For each sale, a commission is paid to the auction by the seller (grower). In Pennsylvania, commission rates are typically 8%. There is a high produce auction density in some areas; therefore, the commission rate has to be competitive. In other areas with fewer produce auctions, the rate is higher (in Elmira (ON) and Homerville (OH) the rate is 10%). The manager from Homerville suggested we start at 12.5%, since that's how the auction would be able to make money in his estimation.

Order Buyers

Many auctions have order buyers, who buy for people who either can't make it that day or who don't have time to come and will call in their order. Some order buyers are employees of the auction (usually the larger auctions since they can afford to pay them), but many are self-employed and act as a broker for stores (these tend to be good at going after new business and bringing in new buyers). Commission rates for order buyers range from 2.5 to 3.5% of the sale (paid for by the buyer). Some order buyers go to stores and supermarkets to meet with the produce manager to get to know what their criteria are. Having an order buyer was highly recommended.

Boxes

Auctions offer boxes for sale to growers – this provides more professional looking boxes and consistent size for stacking (especially important for stores – shipping and storing). It is common for an auction to make a bulk order of thousands of boxes and to sell them to growers for \$0.05 above the price they paid for them. Many auctions use consistent sizes, such as ½ bushel boxes. Waxed boxes are used for items that will be washed in the box or eventually be placed in coolers at their destination since they can get wet and not fall apart.

Consignment auctions

A few times a year, many produce auctions make additional income by hosting consignment auctions for large farm equipment. An extension agent mentioned that income from consignment auctions could be equivalent to annual produce sales. Elmira has hosted a couple of consignment auctions, but says they are a lot of work. They had to wait 2 years to get permission from the township to have a consignment auction. Another manager mentioned that they didn't work because they were too expensive. Some auctions host charity consignment auctions. The Homerville (OH) auction has a special number for any sale to be donated to charity or a person in need in the community (called a number 2000).

Education

A few agricultural extension agents from state universities are involved with US produce auctions. They provide grower support to help increase the quality of produce grown for auctions, and some attend auction meetings and even play a role in getting new produce auctions off the ground. In return, some auctions give a donation to the extension program. In other areas where extension agents don't have time to visit the auction, extension factsheets provide information for growers and are well used.

GROWERS AND BUYERS

Growers and buyers register with the auction and receive a permanent number. This number is the same whether someone is buying or selling. For the most part, more buyers and sellers are registered compared to those who attend the auction on a regular basis. The seller's number is written on a tag for each lot, and the buyer's number is written on the tag once it's sold.

Growers

Almost all produce auctions are in Amish/Mennonite communities and to some extent supported by their volunteer efforts (i.e. donated land or labour to build the structure). This has a large influence on the success of the auctions since the community is able to support one another for the good of the auction. Back door deals seem to be more common with 'English' growers (i.e. non-Amish or Mennonite). According to an extension agent involved with NY auctions, non-Amish growers tend to join the auction once it is up and running by the Amish community. In the opinion of an extension agent from North Carolina, non-Amish growers do not have the willingness and desire to see a produce auction succeed by uniting together and getting behind a common goal. They are not interested in funding it with their own money and labor to get it started.

Most growers do not rely on the auction for 100% percent of their income. Many are from diversified farms, some with their own roadside stands and others have off-farm jobs. Produce auctions are not intended to replace growers' established retail markets (since retail is most profitable for growers), but to create new wholesale marketing outlets. Several extension agents and managers told me that the produce auctions are especially beneficial for new or small growers.

An extension agent from Ohio recommended starting out by having 100 acres committed to the auction (he estimated this would provide produce for 3 auctions a week in mid-season). Wilmer Hoover of the Lebanon (PA) produce auction suggested that growers

choose 4 things to specialize in – and grow them really well. That way, they can ensure quality for the auction and not worry about being good at growing everything. It was also suggested that growers see how other farmers grow their produce and be aware of what others are bringing in order to adjust their own product sales.

Number of growers at selected produce auctions:

Elmira, ON: 80 growers on a weekly basis

Lebanon, PA: 250 registered growers (80 % Mennonite)

Homerville, OH: 479 growers sold produce in 2005 (representing hundreds of acres), many selling between \$20,000-\$50,000 each. In 1997, the auction started out with 20 growers (only 2 had much experience with vegetable production) and approximately 50-100 acres.

Kirkwood, PA: Over 100 growers registered, although only 25 serious growers.

Weaverland, PA: 1,500 registered growers.

Leola, PA: 3,000 registered growers.

Buyers

The most common buyers were roadside stand operators (who may also be growers) and farm markets. Other buyers included independent grocers, chefs, pizza shops (bulk tomatoes), etc. In Elmira (ON), chefs from Waterloo and Guelph Universities come the auction occasionally. Wholesalers were not the best buyers at Elmira, but they can deal with different product volume and fill an order using various sources. At Homerville, $\frac{3}{4}$ of their buyers are roadside stands, farm markets and resellers and $\frac{1}{4}$ are chain grocery stores and restaurants. Chefs are interested in large lots as well as table lots, and they tend to value appearance as well as quality (they also tend to be more fussy than other buyers).

At Leola (PA), buyers are admitted on a trial basis to see if they will stay. After a certain period, they are given a permanent number. Not many buyers are from restaurants or big retail supermarkets, the latter seemed to go to farms directly and arrange large orders

before crops are in the ground. Their biggest buyers are wholesalers, roadside stands, farm markets and independent grocery store owners. Sometimes there is friction between commercial and non-commercial buyers since commercial buyers tend to start the bids higher and non-commercial buyers tend to not know what they're doing.

According to William Hoover of Lebanon PA, a one hour commute isn't bad for buyers. Many buyers come from ½ an hour to an hour away from the auction. Some buyers come from even farther away (2-3 hour drive) to buy at large auctions like Leola and Weaverland.

When buyers get together to manipulate prices, the manager has to manage the situation with sensitivity and education by reminding buyers about auction law (it is illegal to manipulate prices – restraint of trade law). One suggestion to prevent this was to continually seek out new buyers since they usually won't cooperate with old buyers and then it is not as big a concern.

Back-door deals between buyers and growers also happen (especially in times of scarcity such as the beginning or end of the season). One manager thought they don't happen too often and that they seem to regulate themselves. For example, sometimes a buyer who goes directly to a grower's farm ends up coming back to the auction since the grower wanted a higher price at home. Or, it's also happened that the grower wants a consistent price throughout the season, but the buyer can get a better deal at the auction. If 'back-door' deals happen on the auction property and they are caught, the grower has to pay commission. Managers have to be vigilant and strict; some managers are more concerned about it than others.

Number of buyers at selected produce auctions:

Elmira, ON: 40 to 50 come to the auction weekly

Leola, PA: 750 registered buyers

Weaverland, PA: 1,800 registered buyers

Homerville, OH: 1,162 buyers in 2005

INFRASTRUCTURE

Location

Produce auctions are located close to the growers in rural and sometimes remote areas. Amish and Mennonite growers use a horse and wagon to get to the auction, which limits their travel to 10-15 miles from their farm. If the auction is farther, they hire a truck to send their produce to the auction. Many auctions are located one hour away from major cities. Several auctions in Pennsylvania and New Jersey are within 100 miles of Philadelphia and New York City. In the Midwest, PA's are more remote.

Building

Elmira, ON: Total 3 acres. Building: 8,000 ft² (80 x 100 ft), cost \$80,000; parking lot cost \$100,000. They might expand next winter. In the first year, they started in July and rented space in the farmers market before building their own structure.

Lebanon, PA: Total 5 acres. Building: 7,200 ft² (60 x 120 ft) with a loading dock, plus an office (30 x 30 ft) and a parking lot with lots of space to expand. Rented for 4 years before building (2 locations).

Leola, PA: 7 acres, manager couldn't remember the building dimensions.

Homerville, OH: Built auction in a pasture on the Manager's dairy farm. First building (2,400 ft² - 80 x 30 ft) was too small, so the present building is 18,000 ft² (300 x 60 ft), with a separate drive-through building.

Kirkwood, PA: 4.5 acres. Building: 105 x 75 ft, attached to another 50 x 75 ft building.

Weaverland, PA: 10 acres. Building: 80 x 416 ft (33,280 ft²).

Vineland, NJ: 30 acres. Building: 130,000 ft².

Cold Storage

Only the Vineland (NJ) auction has cold storage facilities (includes hydro cooling, vacuum and forced air cooling). The manager at Weaverland (PA) thought that the negatives of cold storage outweighed its positives. Some of his arguments were: on days when there is an oversupply of produce, growers may want to store products for next auction and then it wouldn't be fresh and could compromise quality (buyers prefer fresh produce); they have ice at the auction to keep produce cool; produce is picked early in the morning (cold packed); auction fast and doesn't think produce heats up that much; and a lot of buyers have refrigerated trucks. One manager knew of a few auctions that had cold storage facilities, but had removed them since they weren't as useful as anticipated. The manager from Homerville (OH) expected that if his auction had cold storage, it would always be full and not be fairly allocated (the buyers would take over). Also, he mentioned a concern could be that produce would get wet from being in the cooler (due to condensation) and that this could increase mold growth.

WORDS OF ADVICE

- Quality is paramount – it will make a name for the auction.
- If growers take a long view of things instead of a short view, the auction will succeed even without Amish/Mennonite growers.
- Commitment is important on the part of growers and buyers.
- Before you get started, you need to have growers believing in the auction concept.
- Have to have farmer support – a supporter will look for a good average price over the season instead of the weekly highs and lows.
- The success of growers at the auction is in their own hands (depends on the quality of their produce).
- Should make up a pamphlet about the PA and visit chefs, produce managers at local stores and farm markets and invite them to come to the auction.