



High Expectations: Transitioning to Direct Markets at Ace High Orchards

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The Northwest Direct farm case studies were developed to provide in-depth information about the direct and semi-direct marketing opportunities that exist for farmers within their regional food system and how these opportunities are captured by a diverse set of successful producers in Idaho, Oregon and Washington. Direct marketing strategies employed by the farmers featured in this series include farmers' markets, community supported agriculture (CSAs), u-pick, farm stand and on-farm sales. Semi-direct marketing strategies include sales to restaurants, caterers, retailers (grocery stores, butchers, etc.) and processors, arranged and completed by the farmer him/herself without the use of brokers or wholesalers.

In 2002 and 2003, members of the case study research team performed in-depth on-farm interviews with each of the 12 farm families in this study. Interviews were transcribed, financial information was collected, reviewed and interpreted and outlines for the case study content were developed. Professionals were hired to write the case studies. Each case study went through a series of reviews by the case study farmers, university faculty and research team members with final permission for publishing and distribution given by the farmers themselves.

The nature of profitable small acreage farming demands flexibility and the willingness to change. These case studies, therefore, reflect a "snapshot in time" of each farm. Readers should be aware that these farms have undoubtedly evolved since the initial interviews. They should also be aware that the unique nature of each farm necessitates an individualized treatment of the analysis of farm profitability and the criteria by which that is measured. The case studies contain financial information to the extent that farmers were willing to share, and reflect our intention to educate the reader, while at the same time protecting the farmers' need for confidentiality.

It is our intent that the case studies will be of use to:

- Current farmers who want access to a greater share of the revenue that comes from the foods they grow and raise and are interested in exploring one or more marketing options.
- New farmers who are designing their production and marketing systems, who are interested in employing one or more marketing strategies, and are establishing a business plan for their farm.
- Educators and other agricultural professionals who work with producers and others interested in direct and semi-direct marketing.
- Policy-makers who are interested in enhancing the financial stability of family farms in the region through innovative policy and government funding.

A total of 12 case studies were produced by Rural Roots, Inc. and the University of Idaho as part of the Northwest Direct project. A list of the other case studies in the series is included at the end of this document. These case studies are one component of a larger USDA Initiative for Future Agriculture and Food Systems project called *Northwest Direct: Improving Markets for Small Farms*. For more information on this project and its outcomes, visit the project website at <http://www.nwdirect.wsu.edu/>.



Colette DePhelps, NW Direct Case Study Research Team Leader



Sam Asai
Ace High Orchards
A&J Enterprises
Hood River, Oregon

Marketing Strategies
Employed

Commercial Sales to
Distributors
Farmers' Markets
Fruit Stands
On-farm and web Sales

Products Grown

Apples
Pears
Cherries

Website:

<http://www.hoodriverfruitloop.com>

NORTHWEST DIRECT
MARKETING
FARMER CASE STUDY

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Farm Overview & History

Sam Asai is a third generation orchardist in the scenic Hood River Valley of Oregon. He, his wife, Karen, and their son, Aron produce a variety of fruits on over 80 acres for sale through commercial distribution and several direct marketing channels. And while some orchardists in the valley are going under, Asai endeavors to stay afloat in a competitive world marketplace. Asai says, "I believe the combination of our commercial operation and our direct market is how we intend to keep the farm in the family for the fourth generation."

Asai's grandfather bought land in the Hood River Valley at the turn of the century. He farmed those acres, and raised his family there. During World War II, however, Japanese American farmers lost their property when they were sent to internment camps. A neighbor of the Asai's

told the family that he would operate their farm, and keep up the tax payments during the war. When the war ended, the neighbor turned the deed back over to the Asai family, sparing them the loss that so many other families suffered.

In 1948, Sam's father purchased property nearby. He was the first Japanese American to open an account at the US Bank, which awarded him a free lifetime checking account. Sam was raised on the family farm with his two brothers and a sister, and left as a young man to pursue an M.B.A. from Oregon State University. Here, he met and married his wife Karen, who was pursuing a degree in education. They returned to the farm in 1981. Asai explains, "I thought it would be a good place to raise my family."

Sam and Karen Asai have two grown children: a son, Aron, and a



Photo used with permission. Courtesy of Ron Nichols, Washington NRCS

Third and fourth generation orchardists, Sam and Aron Asai

daughter, Jessica. Aron Asai lives off the family farm with his wife and children, but helps his dad run the orchard. Aron has a degree from O.S.U. in Agricultural Economics, with a minor in Horticulture. Together, the Asai's own, lease, or manage 96 acres, distributed among eight properties.

The Hood River Valley is lush, lying east of Portland, and nestled between Mt. Hood, the highest point in Oregon, and the Columbia River Gorge. The population of the valley is 21,000, so the many orchardists and farmers there rely on the greater Portland markets to sell their agricultural products, as well as distributors that market their products nation-wide.

The climate in the area is cool, with an average annual temperature of 50.5⁰ F., an average rainfall of 31" per year, and an average snowfall of 36" per year. This climate is ideal for the production of peaches, pears, apples and cherries, and there are over 14,000 acres of commercial orchards in the county.¹

"I believe the combination of our commercial operation and our direct market is how we intend to keep the farm in the family for the fourth generation."

Business Overview

"Ace High," a wordplay on the name Asai, is the corporate name for two of his properties, comprising 42 acres, which Asai calls the "family farm." Ace High was incorporated in 1978, with Sam, his two brothers, his sister and his parents as shareholders. Since

Sam's father passed away, shares are being redistributed to include his son.

A&J Enterprises is the direct marketing arm of the corporation. This is structured as a DBA, referring to Sam, his wife Karen, and son Aron. Through A&J Enterprises, the Asai's sell fruit to local schools, farmers' markets, and to several fruit stands in the greater Portland area. They also participate in the Hood River "Fruit Loop," an organization devoted to the promotion of agriculture in the valley, which holds festivals, farm tours and creates a popular orchard map for fresh fruit enthusiasts. The leased properties held by Ace High and A&J Enterprises comprise almost 40 acres. In addition, Aron manages one 16 acre orchard. Please see Figure 1 for a property summary.

Figure 1: Property Summary		
Property Number	Description	# Acres
#1	Ace High Family Farm	20
#2	Ace High Family Farm	22
#3	A&J. Leased by Aron from parents	17
#4	# Not used	# Not used
#5	A&J Enterprises	1.5
#6	A&J Enterprises	4
#7	A&J Enterprises	6
#8	A&J Enterprises	9.5
#9	Managed property	16

Marketing

Ace High Orchards markets the majority of its cherries and pears through commercial distribution, primarily through Diamond Fruit Growers, a cooperative of orchardists in the Hood River Valley. Diamond is the largest supplier of pears in the United States.² However, all of his apples, and about 7.5% of the total production of Ace High Orchards is sold through direct and semi-direct markets. He sells his fruit to local schools, at farmers' markets, and through several produce stands, as well as on the web. These sales yielded 20% of his gross income in 2004.

Asai began direct marketing in 1983, by selling apples to a grocery store in Beaverton. Then, in 1987, he began selling fruit to Nature's, a large natural food chain in Portland. But when a 1998 CBS news report said that the commonly used growth regulator *Alar* was believed to be a carcinogen, many producers lost their sales to grocery store chains and Asai says, "My (grocery) sales went to zero." Around this time, however, the Gresham farmers' market opened, and Asai began selling his fruit there, expanding his direct market avenues. He sells at Gresham for approximately 8-10 weeks each year during his pear and apple harvest. He also sells at the Hood River farmers' market for a few weeks in the summer to reduce his cherry inventory. His wife, Karen, supervises the cherry packing crew and on market days drives the produce to the market and sells

¹ <http://www.co.hood-river.or.us/>

² <http://www.diamondfruit.com/html/aboutDfg.htm>

there. Asai does not prioritize the farmers' market sales at this point, however, because his commercial sales are so much higher. He says, "Why should I do \$500 or \$1000 of business at the farmers' market when I'm doing...about \$10,000-\$12,000 per day (in commercial sales.)" Additionally, he does not wish to compete with "the backyard people" who bring their fruit to market as a side business and undercut everyone in price.

In 1991, Nature's began buying from him again, but they soon went to selling all organic produce, and once again, Asai lost that sale, but says that he continues to approach natural foods stores, since he uses integrated pest management practices and grows as sustainably as he deems possible.

In 1992, the Hood River County "Fruit Loop" began and Asai joined the organization. Growers in the group participate in festivals and produce a map each year of the area's farms for interested tourists. Asai says he likes the organization because it showcases their beautiful valley. He sells only a small amount of fruit on-farm as a result of his presence on the Fruit Loop map, but Asai says, "It's something we believe in, philosophically more than financially."

Asai then began selling to local fruit stands, and in 2004, sold to a total of five. He made the connection with the fruit stand vendors through his personal relationships, his bridge partners, his association with the Fruit Loop and word of mouth.

It was also through personal relationships that he began selling his apples to the public schools in Hood River. Commercial apple prices had hit rock bottom, so Asai began to seek other more profitable avenues for these sales. The schools liked getting local produce, and were able to offer a better price, approximately four times as much as

he had been getting from Diamond Fruit.

His and Karen's regular delivery route to the fruit stands, schools, and farmers' markets encompasses approximately 100 miles. When asked if he intends to expand his direct markets, Asai says that he's "pretty much maxed out." He intends to pass more of the direct marketing responsibility to his son, whose youth would make him better able to keep up with the demands of packing and delivering the fruit. Regarding the hours on the road for deliveries added to the extremely long hours of harvest, Asai says, "I'm getting too old."

Transitions

Ace High Orchards is in a period of transition, and as all growers know, the business of farming is the business of change. First, Asai has changed the nature of his father's business by increasing the production acreage substantially. Also, due to changes in the market, he has shifted his crop emphasis from apples and pears, to pears and cherries.

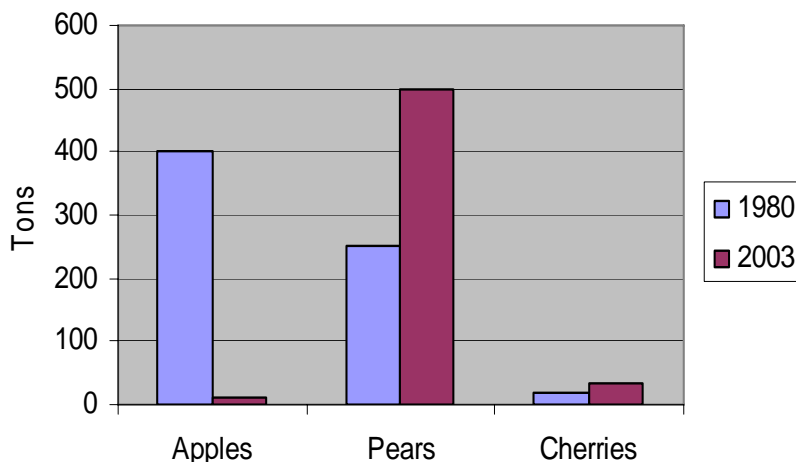
In recent years, American apple growers have been out-competed in the world marketplace by the Chinese, who have begun to export a very large quantity of apples to countries that were previously American export markets. Asai says that in 2002, American apple production equaled only one quarter of the production in China. As a result of the precipitous drop in American apple prices, distributors, such as Diamond Fruits, stopped carrying apples, and therefore the Asai family decreased their production and began selling them only direct to the schools, and through their farmers' markets and farm stands. On the 42 acre Ace High property, quantities shifted significantly, de-emphasizing apples, and emphasizing cherries. Please see

Figure 2 for Ace High production figures.

On the leased A&J Enterprises properties, also, the majority of the production is devoted to cherries, which are marketed through Diamond Fruits and through direct marketing avenues. Asai says he believes that the market can absorb an increase in production of cherries because they are such a popular fruit.

As a result of his expansion into direct markets, he has become aware of a possible market for his cherries that he had not previously considered. A friend who grows Asian pears told him about some Chinese grocery chains in the Bay Area that are seeking farm fresh cherries. Therefore Asai is considering a transition in his operation to reach these markets. It is a dilemma though. Asai says that the current status of his opera-

**Figure 2: Production Transition from Apples and Pears to Pears and Cherries
Ace High Orchards 1980-2003**



tion is that of a grower who sells primarily to distributors, and does only a little direct marketing. To transition his operation into more direct markets, such as the Bay Area Chinese groceries, he would have to become a grower/packer/distributor. And this would entail a change in infrastructure, equipment, and staff, and would require a capital investment that Asai is not sure he's willing to make. He says that currently he is "strained to the gills." He works 18 hours a day, 7 days a week during cherry harvest. To increase his production to meet the demand of this new market would mean becoming mechanized, expanding their packing shed, and hiring some new employees. In addition Asai would have to absorb the cost of shipping the fruit to the Bay Area.

"The world market has driven our (profit) margins down to where there is no (profit) margin."

This opportunity and other direct marketing options are daunting to Asai. Direct marketing is very labor intensive, entails developing an expanded customer base, and usually means an increase in delivery and fuel costs. However, goods sold through direct markets generally receive a better price, and competition on the world market is making it difficult for the small producer to compete via wholesale. Asai says, "The world market has driven our (profit) margins down to where there is no (profit) margin."

Pricing

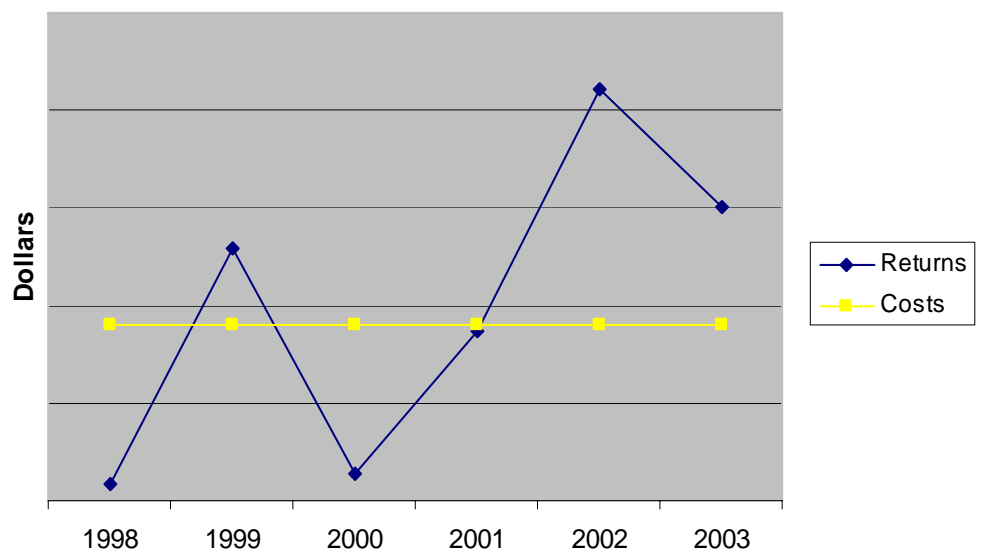
Still, Asai describes cherries as "the future of the farm." Cherries are a very popular fruit, and Oregon is third in the nation in cherry production. (Source: Oregon Department of Agriculture.) But cherries are also a high-risk crop. Asai says that only about 20% of the orchardists in the Hood River Valley are making the transition. Cherries are vulnerable to wind, and rain will cause the fruit to swell and split, making an entire crop worthless. During harvest season he has helicopters standing by to dry the cherries in case of a sudden rainstorm. The fee for this service includes a non-refundable deposit and costs \$600 per hour of airtime if they fly.

On a good year, cherries are a very valuable crop, and the returns far surpass those for pears or apples. One year, his cherry crop, which was one-fourth of his production acreage at the time, yielded 75% of his gross income. The production costs for cherries are higher, mainly due to the labor intensive harvest, but returns on cherries are much better than on apples and pears, which are often below cost. Mother Nature intervenes, however, and his returns on cherries have fluctuated wildly over the years. Asai says, "It's a rollercoaster ride." Please see Figure 3 for annual returns on cherries.

Pear prices have dropped in recent years, due to competition with Argentina and Chile. Though he grows a popular russeted variety which yields a reliable profit, Asai



Figure 3: The Fluctuations in Returns on Cherries, 1998-2003
Ace High Orchards



says that he loses money on every Anjou pear he produces. In 2003, for example, these returns were 10% below cost. And the picture is even bleaker for the Standard Bosc (See Figure 4). In countries where labor is cheap and chemical regulations are less stringent, distributors pay very little for the fruit. And Asai says that he's afraid that the Krogers, Safeways, and Wal-Marts of the nation are not willing to pay the extra two to three cents per pound to buy American and keep farmers afloat.

Production Methods

Sam Asai and his son Aron grow their fruit trees in multi-acre blocks. They emphasize good stewardship of the land and conservation of water. They have participated in an Environmental Quality Incentives Program, and installed micro-sprinklers on some of their property for water conservation. They do soil testing and leaf analysis to determine the fertilizer needs of each block, and buy their chemical fertilizer from a local chemical house. They use integrated pest management practices, spraying for specific insects after careful analysis. Asai says, "We'd be happy not to spray if people were willing to be a little more tolerant... but most (of our customers) don't want to cut a piece of worm out of their fruit."

Asai has three year-round employees- his foreman, and his tree man, who live in a worker camp on the property, and his assistant foreman, who lives in town. These workers are responsible for spraying, brush management, planting and irrigating. Asai also hires dozens of workers seasonally, depending on the harvest. During cherry harvest, which takes place over the month of July, he employs 50 to 60 workers. During pear season, from August to October, he employs 12 to 18 workers. In October and November, during winter pear and apple season, he employs another 10 workers. Asai is known for paying good wages, above minimum, and says that a decent cherry picker, who gets paid by the bucket, can make \$100 per day.

During cherry season, the crew begins work at 4:30 a.m. Asai joins the crew at 5:00. The packing house prohibits picking when the temperature reaches 82° so picking ceases between 10:00 a.m. and 2:00 p.m. Typically, Asai's crews can pick up to 10 tons of cherries per week.

Labor during harvest is the big expense in his operation. Asai says that it costs about 12 cents to 15 cents per pound to grow and pick apples and pears. It costs 35 cents to 40 cents per pound for

cherries. Harvest is 25 cents of that cost for cherries.

Advertising

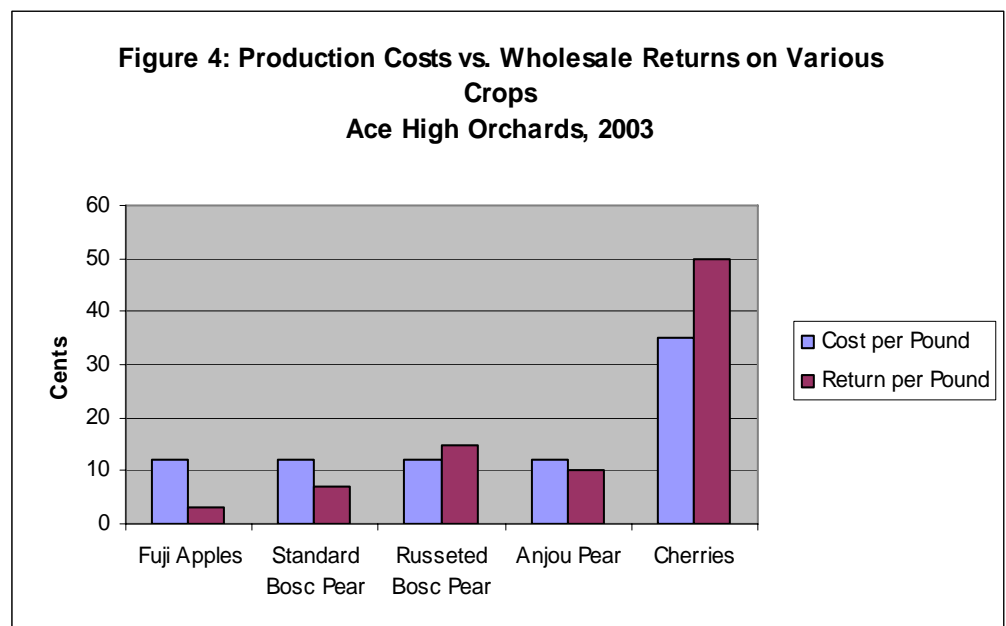
Because Ace High Orchards sells most of its produce through Diamond Fruit Growers, Asai has not made a big effort to advertise. He keeps a website as a result of participating in the Hood River County Fruit Loop, where consumers can get contact information and see his production calendar. He has a presence at the farmers' markets and fruit stands, but most of his direct market trade comes by "word of mouth." He has considered expanding his website, and as part of his exploration of direct markets would consider expanding his web sales.

Philosophy and Goals for the Farm

Sam Asai has a business plan for the future of his farm that he reviews and revises on a regular basis. He predicts that, Mother Nature willing, his farm will be operating in the black in the next few years. He says that he would like to increase his cherry yield to 200 tons in the near future, so that his cherry crop can carry the rest of his production of pears and apples. His plans for transitioning more land to cherry production, and the number of his trees that will soon be coming to maturity could make this goal possible. His long-term goal is to maintain the family farm.

"I do believe in cherries," says Asai, despite the risks. Farming, in general, "is a gamble." And, he continues, "I might as well gamble on something I can occasionally hit the jackpot with."

When thinking about increasing his production in order to expand to direct markets, Asai reflects, "The market is there. It's just a question: Do I want to take that next step?"



Northwest Direct is a four-year research project involving the five partners listed below. Our goal is to increase profitability of small farms in the Pacific Northwest through research and extension. We have documented locally based food systems, developed case studies of direct marketing farmers, fostered expansion of farmers markets, and addressed regulatory and infrastructure barriers to direct sales. Northwest Direct is coordinated by Washington State University's Small Farms Program. More information is available at www.nwdirect.wsu.edu.



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